PROGRESS UPDATE & FINANCIAL REVIEW

AGNICO-EAGLE MINES LIMITED

1998

OVERVIEW OF OPERATIONS

OPERATIONS

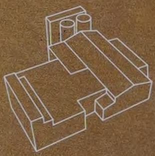
- Over 2,100 tons per day (TPD) produced at LaRonde
- Average grades 0.21 oz gold and 0.55 per cent copper
- Mine operating profit of $15.3 million
- US$212 to produce an ounce of gold
- New zinc circuit exceeding expectations

RESERVES AND RESOURCES

- LaRonde reserves and resources increased 10 per cent to 4.6 million contained ounces of gold
- Total mineral resource tonnage rose 25 per cent
- Proven and probable reserves up 59 per cent

EXPLORATION AND DEVELOPMENT

- Major transfer of resources to reserves
- Zone 20N much thicker than expected
- 100,000 feet of drilling proposed for 1999, focusing on transfer of resources to reserves
- Recent exploration progress resulted in expanded drilling program at depth



CAPITAL PROJECTS AND EXPANSION

- Construction under way to upgrade facilities for increasing capacity from current 2,000 TPD
- 3,600-TPD expansion program on target
- 5,000-TPD production scenario under review, with decision expected in second quarter of 1999

Fellow shareholders:

We have just come through one of the toughest years for the gold industry in recent memory. Like many investors, we have been continually frustrated by the inability of the gold price to react positively to situations that have historically driven it higher; however, we also know that the gold price, like any commodity price, moves in cycles and that eventually gold prices will rise once again. In the interim, our focus is on building and maintaining a viable business that is able to increase returns to shareholders regardless of the gold price.

Over our long history, Agnico-Eagle has gained valuable experience dealing with the ups and downs and cyclical nature of the gold mining industry. We have learned that to survive and prosper, we must stay focused, follow sound mining practices and be financially conservative. It is this conservative approach to managing our business that has put us in the enviable position of being able to grow our business internally and to take advantage of other expansion opportunities in the current low gold price environment.

Our goal is not only to build Agnico-Eagle into a larger and more profitable gold producer, but also to build our business to prosper at a US$300 per ounce gold price. Our focus will remain solely on gold, with the primary objective being to produce more gold at a lower cost per ounce.

The key to our development plans is our LaRonde Mine. This asset is a quality, low-cost operation with excellent potential for growth as exploration continues. The large mineralized zones around Shaft #3 remain open for expansion. Recent drilling

has shown that the mineralized zones extend to a depth of 8,800 feet below surface, indicating that there is significant potential to further increase gold reserves. These zones are currently being drilled aggressively, and with each drill hole, we get closer to establishing the true potential of this asset. Our biggest challenge now is to ensure that our development and expansion plans keep pace with our many new discoveries at LaRonde.

During 1998 our proven and probable gold reserve base at LaRonde increased 59 per cent to 1.3 million ounces. Over the next 12 months, we will create additional value by converting more of our large mineral resource into reserves and by extending the mineralized zones. Based on our strengthening reserve and mineral resource position, we are carefully evaluating a potential further expansion of our planned production rate.

Our existing development plans call for an increase in annual gold production to 220,000 ounces at a cash operating cost of US$125 per ounce by 2001. A decision to further augment the mining rate would see annual gold production rise to

May

We strengthen our financial position by closing an offering of over nine million common shares at a price of C$10.75, having obtained equity financing of C$95.5 million needed for development and expansion of the LaRonde Mine.

The Quebec Chamber of Commerce honours Agnico-Eagle with a 1998 Mercure for our contribution to economic and community development. The Mercuriades are the most prestigious business awards in Quebec.

June

Hundreds of thousands of hours on the job without a lost-time accident earn Agnico-Eagle the Quebec Mining Association's F.J. O'Connell Trophy for excellence in safety and accident prevention in 1997.

approximately 280,000 ounces at a cash operating cost of US$100 per ounce by 2002. Payback on the incremental capital needed to move to this higher production level is estimated at two years. The bottom line for Agnico-Eagle is that LaRonde is a long-lived, low-cost mine that will produce robust cash flows for many years. This provides us with a solid base for building a stronger gold mining company, even during periods of reduced gold prices.

In conjunction with our internal growth at LaRonde, our general strategy for building Agnico-Eagle includes selected acquisitions and an expanded exploration program. Given the quality of the internal growth inherent at LaRonde, we can be patient with our acquisition strategy and not grow just for the sake of adding ounces. In addition, the greater cash flow we expect to generate at LaRonde will enable us to take a long-term, committed approach to increased exploration. That approach will include spending more (utilizing the higher cash flow anticipated from LaRonde) and extending our activities beyond Ontario and Quebec, our traditional areas of interest.

Encouraging results from the definition drilling on the 9th level around Shaft #3 at the LaRonde Mine confirm that the mineralization is thicker than originally estimated, and identify a potential new zone. We decide to accelerate the drilling program.

July

Over an 18-month period, total tonnage in Zone 20N above the 10th level increases 63 per cent, with contained gold up 43 per cent, helping to triple the probable ore reserve. The resource below that level is calculated at over 2.1 million ounces of gold.

August

Definition drilling along the 10th level in Zone 20N encounters an increase in gold grades. This is seen as the transition between the zinc/silver section of the zone and the gold/copper section.

Although 1998 was a difficult year and we continued to reduce or eliminate expenditures where appropriate, we carried on our long history of paying dividends by declaring our 19th consecutive annual dividend in December 1998. Although modest at US$0.02 per share, the much higher returns expected from the expanded LaRonde Mine will put us in a strong position to improve future payouts to our shareholders.

Over the past year we have asked our employees to do more and, as expected, they have responded enthusiastically. The strength of this company is its people, and we thank our employees for their continued hard work and commitment to building Agnico-Eagle.

We are in the truly fortunate position of not having to rely on higher gold prices to generate returns and create value, as all of the components that make a quality gold company are in place:

- Growing reserves and production with excellent exploration potential;
- Low-cost operations with sharply declining production costs;

September

Within 10 operating days of start-up, the new zinc circuit reaches design targets. Recoveries average 70 per cent initially, improving to 74 per cent by year-end.

Our award-winning year continues with recognition from the Quebec Prospectors' Association for our exploration and development success at the LaRonde Mine. We're proud to receive their *Prix de développement de l'année* for the second time.

December

Drilling results show Zone 20N is even larger than anticipated, with higher-than-expected gold grades, leading to plans to increase the production rate above 3,600 tons per day. The 19th consecutive annual dividend for Agnico-Eagle shareholders completes a rewarding year.

- Strong financial position with good access to additional capital;
- Experienced, proven management and a committed work force; and
- Excellent leverage to rising gold prices, as none of our future gold production has been sold forward.

A low gold price environment can be a time of opportunity for those gold companies with the desire and ability to grow. Our experience over the years has taught us to build when gold prices are low so that we are well positioned to take advantage of higher gold prices. Our former President, Paul Penna, was a great proponent of this strategy and, as a result, his vision of the LaRonde Mine as a world-class gold deposit is now being realized.

Agnico-Eagle has been fortunate to enjoy the tremendous confidence of a loyal shareholder base over our long history. We thank you for this ongoing support. In this progress report, we are pleased to update you on some of our recent successes and outline our plans to continue to build Agnico-Eagle.

Sean Boyd

Sean Boyd
President & Chief Executive Officer

Proven &

For over 35 years, Agnico-Eagle has been mining precious metals in one of the world's most productive mining regions and establishing a solid reputation as experienced mine builders and low-cost producers who deliver what we promise.

1996	1997	1998
Modification of the copper circuit begins, to be completed in 1997. We award a contract to design the new zinc circuit, with construction to start the next year. The Shaft #3 reserve and resource level increases to 4.0 million contained ounces of gold. Proven and probable reserves are maintained at or above 1.0 million ounces.	The LaRonde Mine achieves gold production of 154,515 ounces. Shaft #3 is completed to a depth of 4,900 feet. Preliminary production plans for Shaft #3 call for an 80 per cent increase in the daily mining rate from 2,000 tons per day to 3,600 tons per day.	Reserves and resource increase to 39.7 million tons, or 4.6 million contained ounces of gold. The zinc circuit reaches operating specifications. Shaft #3 extends to 5,700 feet by year-end, while an exploration hole encounters mineralized zones at 8,800 feet. Drilling success convinces us to accelerate the deep exploration program.

Probable

The most exciting story is unfolding at our LaRonde Mine, where ongoing exploration confirms a deposit larger than originally suspected. We can look forward to increasing gold production, further reserve expansion and significantly lower production costs. It's a straightforward story of growth as we prepare to thrive in a US$300 gold price environment.

1999	2000	2001
Toward the end of the year, we complete the development and construction of Shaft #3 down to 7,350 feet. The deep drilling exploration program continues to assess the potential of various zones at depth. During the year, a study began to evaluate the possibility of increasing the production rate to 5,000 tons per day.	Gold production is expected to continue rising to 170,000 ounces, an increase of 31 per cent. The production levels of byproducts should reach approximately 66 million pounds of zinc and 1.6 million ounces of silver. Cash operating costs to produce an ounce of gold are expected to decline to US$175.	At a daily throughput rate of 3,600 tons, gold production is expected to rise to 220,000 ounces. Ongoing improvements could reduce the per-ounce operating cost to below US$125.

In 1998 the LaRonde Division produced 776,752 tons (2,111 tons per day) from its two shafts at an average grade of 0.21 ounces of gold and 0.55 per cent copper per ton. The mine produced 150,443 ounces of gold, 269,985 ounces of silver, 6.2 million pounds of copper and 1.2 million pounds of zinc, generating a cash mine operating profit of $15.3 million.

Operationally, the LaRonde Mine continued to perform well. Cash costs to produce an ounce of gold remained low at US$212 per ounce, compared to US$216 the previous year, despite reduced byproduct revenue due to significantly lower copper prices.

The mill's operating time averaged 93.3 per cent, an excellent result despite the major modifications and construction in progress. Existing mill offices, laboratories and other support facilities were relocated so that the 3,600-TPD expansion program could proceed.

The new zinc circuit was commissioned in early September, achieving design criteria within 10 operating days and exceeding them by year-end. Recoveries topped 74 per cent; concentrate quality was 54 per cent despite low zinc head grades.

With two years of reserves left at both Shafts #1 and #2, we focused on developing and preparing Shaft #3 for production. The first mining blocks at Shaft #3 will be ready for production by mid-1999.

As always, employee safety was a high priority. The LaRonde Mine's best-ever safety record earned it the F. J. O'Connell Trophy from the Quebec Mining Association. Both employee turnover and absenteeism were very low again in 1998, averaging 0.5 per cent and 3.2 per cent respectively; 70 per cent of our employees did not miss a single day of work. In spite of difficult ground conditions and mining operations dispersed widely across the LaRonde property, this reliability and our excellent safety record combined to ensure superior productivity.

LaRonde Mine reserves and resources stood at 4.6 million contained ounces of gold at the end of 1998, compared to 4.2 million ounces the previous year, an increase of 10 per cent. The total mineral resource rose 25 per cent to 40 million tons from 32 million tons last year, not including significant quantities of silver, copper and zinc.

Proven and probable reserves rose to 1.3 million ounces, compared to 820,000 ounces last year, an increase of 59 per cent. This does not include production replacement; it does, however, include the first-ever resource ounces transferred into the proven and probable category from Zone 7.

The most impressive gains were made at depth in Zone 20N (gold). Tonnage expanded to 12.6 million tons from 7.4 million tons last year, growing 70 per cent, with the grade remaining at 0.18 ounces of gold per ton. This increase confirms the transition from zinc/silver in the upper portions of Zone 20N to gold/copper mineralization at depth. In 1999, further drilling where the deposit is still open at depth and to the west is expected to add to the tonnage.

With continuing low metal prices, the 1998 reserves and resources were calculated using reduced long-term metal prices. The gold price was decreased from US$350 to US$300 per ounce and copper from US$0.80 to US$0.75 per pound. Silver and zinc prices were maintained at US$5.00 per ounce and US$0.50 per pound, respectively.

The Canadian/U.S. dollar exchange rate was adjusted from $1.39 to $1.50. In the Net Smelter Return calculation, mining costs were cut from C$67 per ton in 1997 to C$55 per ton in 1998. These costs reflect projected lower mining costs due to greater thicknesses and superior ground conditions demonstrated in Zone 20N underground development and diamond drilling results.


Shaft #3
Shaft #2
Shaft #1
Zone 5C
Zone 6
Zone 5
Depth 1,729 ft
Zone 20N Reserves
Zone 20N Reserves
Zone 7
Reserves
Ramp 25th Level
Zone 20S Reserves
Depth 3,953 ft
DDH 3122-08 (Zone 20S)
DDH 3122-09 (Zone 20S)
Zone 6 Reserves
Zone 6
Resources
Zone 20N Resources
Zone 20N
Reserves
DDH 3160-05 (Zone 7)
DDH 3170-03 (Zone 7)
Zone 7 Reserves
Zone 20S
Resources
DDH 3170-07 (Zone 7)
Actual shaft depth
6,200 ft (May 1, 1999)
Zone 20N
Resources
DDH 3146-16
(Zone 20N)
Zone 7 Resources
Depth 7,350 ft
DDH 3160-04 (Zone 7)
8,800 ft below surface
Open for expansion

LARONDE RESERVES ESTIMATES

Category	Zone	Au (oz/ton)	Ag (oz/ton)	Cu (%)	Zn (%)	Short tons (millions)	Au (oz thousands)
TOTAL SHAFT #1 RESERVES ESTIMATE							
Proven		0.14	0.50	0.38	0.54	1.4	187
TOTAL SHAFT #2 RESERVES ESTIMATE							
Proven		0.12	1.29	0.25	3.33	0.3	36
SHAFT #3 PROBABLE RESERVE AND RESOURCE ESTIMATE							
Probable	6	0.12	1.52	0.18	3.74	0.1	7
Probable	7	0.28	1.22	0.31	2.33	0.6	165
Probable	20S (Au)	0.22	1.59	0.50	2.75	1.0	206
Probable	20N (Au)	0.13	3.47	0.54	2.84	2.5	315
Probable	20N (Zn)	0.03	2.75	0.10	7.60	12.8	358
Total Probable		0.06	2.73	0.19	6.42	17.0	1,051
Resource	6	0.13	1.26	0.29	2.11	0.9	126
Resource	7	0.23	1.56	0.32	1.52	2.6	595
Resource	20S	0.20	0.70	0.25	1.45	1.3	257
Resource	20N (Au)	0.18	1.54	0.69	1.88	12.6	2,210
Resource	20N (Zn)	0.02	1.91	0.03	9.75	3.7	83
Total Resource		0.16	1.54	0.49	3.19	21.1	3,271
Total Probable and Resource		0.12	2.10	0.36	4.63	38.1	4,322
GLOBAL RESERVES AND RESOURCES							
Shafts #1, #2, #3		0.12	2.01	0.36	4.50	39.7	4,545

HIGHLIGHTED DRILL POINTS (INTERSECTIONS)

Drill point	Zone	Au (oz/ton)	Ag (oz/ton)	Cu (%)	Zn (%)	True thickness (feet)
DDH3160-04	7	0.14	1.64	0.43	1.59	9.8
DDH3160-05	7	0.52	2.92	1.31	6.10	9.8
DDH3170-03	7	0.53	2.03	0.70	2.50	14.8
DDH3170-07	7	0.28	1.90	0.43	1.80	9.2
DDH3122-08	20S	0.27	1.51	0.60	1.70	27.9
DDH3122-09	20S	0.29	1.58	0.80	1.60	27.9
DDH3146-16	20N	0.22	1.25	0.79	0.09	26.2

In 1998 drilling focused on the Shaft #3 mineralized zones, with new levels providing access to upper parts of Zones 20N, 20S and 7. Of the total footage, 75,000 feet was definition drilling and 32,750 feet was exploration drilling.

Definition drilling, continuing from the 7th level and starting from the 8th through 11th levels, was responsible for the substantial transfer of resources to reserves. Diamond drilling completed from the 9th and 10th levels accounted for the increase in resources at depth.

Zone 20N Results

The most significant results were produced by one hole drilled from the 10th level at 5,250 feet below surface. Drilling in DDH 3146-16 intercepted three distinct zones that yielded the deepest economic values encountered so far in Zone 20N. From north to south, the following values were intersected:

Gold (oz/ton)	0.18	0.22	0.02
Silver (oz/ton)	0.15	1.25	1.69
Copper (%)	*LV*	0.79	0.03
Zinc (%)	*LV*	0.09	11.31
True thickness (feet)	13.1	26.2	9.8

LV: low value

These drill-hole results suggest the following:

- Diamond drilling has traced Zone 20N over a vertical distance of 5,100 feet. The zone is still open at depth and to the west.
- For the first time in this zone, we have encountered gold mineralization within a footwall zone of 20 per cent massive pyrite stringers and without accompanying copper mineralization.
- The intersection confirmed the trend of zinc/silver mineralization at the upper horizons, grading to gold/copper mineralization at depth. The gold grades within the 26.2-foot intersection were significantly higher than those previously encountered in Zone 20N, varying from a low of 0.15 ounces per ton to a high of 0.39 ounces per ton. The copper values ranged from a low of 0.2 per cent to a high of 2.1 per cent.

- Zone 20N's metallurgical relationships confirm the model first encountered in Shaft #1's main zone and Shaft #2's Zone 6.
- The drill-hole results increased Zone 20N's resource position.

Zone 7 Results

Both definition and exploration drilling results suggest that Zone 7 may be more extensive and of higher quality than originally estimated.

In late 1998, Shaft #3 provided drilling access to Zone 7, allowing us to explore the massive sulphide portion of the zone below 5,000 feet. Drilling below 5,000 feet indicated that Zone 7 massive sulphides are larger and much higher in gold grade than the mixed results returned from stringer zones encountered in earlier exploration drilling above the 5,000-foot level.

The following drill results were obtained from levels 10, 11 and 12:

	Definition drill results			Exploration drill results
	DDH 3170-03	DDH 3160-05	DDH 3170-07	DDH 3160-04
Gold (oz/ton)	0.53	0.52	0.28	0.14
Silver (oz/ton)	2.03	2.92	1.90	1.64
Copper (%)	0.70	1.31	0.43	0.43
Zinc (%)	2.50	6.10	1.80	1.59
True thickness (feet)	14.8	9.8	9.2	9.8

The definition drilling results have confirmed that Zone 7 extends over a vertical distance of 800 feet and a horizontal distance of 600 feet. Only DDH 3170-03 has been incorporated into the current resource/reserve estimate; these results have significantly higher gold grades than the average resource/reserve grade of 0.23 to 0.28 ounces per ton.

DDH 3160-04 is noteworthy in that it is the deepest gold intersection in exploration drilling at LaRonde, further underlining the depth potential of the property and the stratigraphic horizon of Zone 7.

These Zone 7 drilling results are important because:

- Both the exploration results at depth and the definition drilling results occurred in massive sulphide mineralization. The values and the mineralogical relationship between gold and copper are the same as those of other massive sulphide lenses on the property.

- One of the important characteristics of the drill results is the frequent appearance of coarse visible gold, which has been found in most of the higher-grade intersections. Historically, the presence of visible gold has been characteristic of higher mined-out grades than indicated by diamond drilling.
- The Zone 7 drilling returned some of the most spectacular gold intersections seen on the property to date. The most exciting result was obtained from DDH 3160-05, where a three-foot section averaged 39.0 ounces of gold per ton because of the extensive occurrence of coarse visible gold. In this intersection, the assay was cut to 1.0 ounces per ton.
- The overall mineralized zone at depth was approximately 50 feet thick, encountering gold values as high as 0.53 ounces per ton and occurrences of visible gold. Copper values ranged from 0.10 per cent to 1.0 per cent, maintaining the mineralogical relationship. The horizontal thickness encountered at depth was the thickest Zone 7 occurrence obtained on the property so far.
- Previous diamond drilling had encountered Zone 7 at a depth of 6,400 feet below surface, or 2,400 feet above the results obtained in DDH 3160-04. At depth, the zone is open in all directions. This vertical distance remains untested and open for further expansion. Overall, exploration drilling has now traced Zone 7 over a vertical distance of approximately 3,500 feet.

1999 Drill Program

The focus of the 1999 drill program will be the continued transfer of resources to reserves, as well as infill drilling of some of the untested areas. A total of 100,000 feet of diamond drilling has been proposed, part of the original 450,000-foot program designed to test and evaluate the Shaft #3 zones. The work will be concentrated in three main areas: Zones 20N, 20S and 7.

A total of 40,000 feet of underground development is planned for 1999. Shaft #3 is scheduled to reach its planned depth of 7,350 feet by the end of the fourth quarter. This development will open up new areas from which to conduct additional diamond drilling, expedite the resources-to-reserves transfer and facilitate long-term planning for the mine.

Along with the ongoing development at LaRonde, we continue to upgrade our facilities to support both current and forecast production rates. At the end of 1998, the milling facility could recover gold, silver, copper and zinc at a rate of 2,000 tons per day. When the Phase II expansion is complete, the maximum capacity will reach 3,600 tons per day, with provisions for a further expansion to 5,000 tons per day.

The principal components of the development program include shaft sinking, level development, and construction of systems for ventilation, ore and waste handling, and paste backfill.

SHAFT SINKING

By the end of May 1999, Shaft #3 had reached a depth of 6,200 feet, and ground conditions remain excellent. The shaft will be completed by the end of the fourth quarter. A second shaft bulkhead was installed between the 10th and 11th levels, which will permit development on the 10th level while shaft sinking continues. The #1 loading pocket facility installed below the 10th level was sized to handle 5,000 tons of ore per day.

VENTILATION SYSTEM

To accommodate the exhaust and fresh air ventilation systems, raises were completed in 1998 from both existing infrastructure and newly developed levels. Fans will be installed by the third quarter, with the whole network installed down to the 10th level by mid-2000. The system is readily expandable from 800,000 cubic feet per minute (required for 3,600 tons per day) to 1.3 million (required for 5,000 tons per day).

ORE AND WASTE HANDLING SYSTEM

Because of the increasing reserve position, we chose a fully automated ore handling system that will eliminate the need for ore tramming and reduce the necessary manpower. Excavation for the crushing station, conveyor ramps and a 5,000-ton ore silo has begun.

PASTE BACKFILL SYSTEM

The voids created by Shaft #3 ore production will be backfilled with cemented paste fill rather than with the cemented rock fill presently used at the other shafts. The paste fill system reduces manpower requirements and decreases the filling cycle, both important considerations when mining at depth. Construction of the backfill plant is scheduled to start during the second quarter of 1999, with completion expected by year-end.

MINE DEWATERING SYSTEM

This system will consist of two main pumping stations, one located on the 7th level at 4,000 feet below surface and the other at 7,000 feet, with pumps capable of handling up to five per cent solids and a pH of 1.0. The first pumping station was excavated in 1998; installation will be completed by the end of 1999.

ANCILLARY SERVICES

During 1998, a major explosives storage facility was constructed on the 8th level to supply the upper Shaft #3 zones. The facility will make the use of bulk explosives possible, as well as reduce handling costs.

At the end of 1998, excavation began at the 8th level for the first of two electrical and mechanical equipment shops, scheduled for completion by mid-2000.

Mill Expansion

We have made significant progress on the four main components of the mill expansion: enlarging the copper circuit, building a new zinc circuit, increasing mill capacity and improving ancillary services.

COPPER CIRCUIT

The copper circuit was completed and commissioned in August 1997. Copper recovery improved from 81 per cent to 82.5 per cent.

ZINC CIRCUIT

The processing highlight of the year was the start-up of the zinc circuit in September. It was very successful, reaching design targets within 10 operating days. Zinc recoveries averaged 70 per cent at start-up, and had improved to 74 per cent by year-end, when the first concentrates were shipped to a custom smelter. The zinc circuit is presently capable of handling 2,000 tons of ore per day.

PHASE II EXPANSION

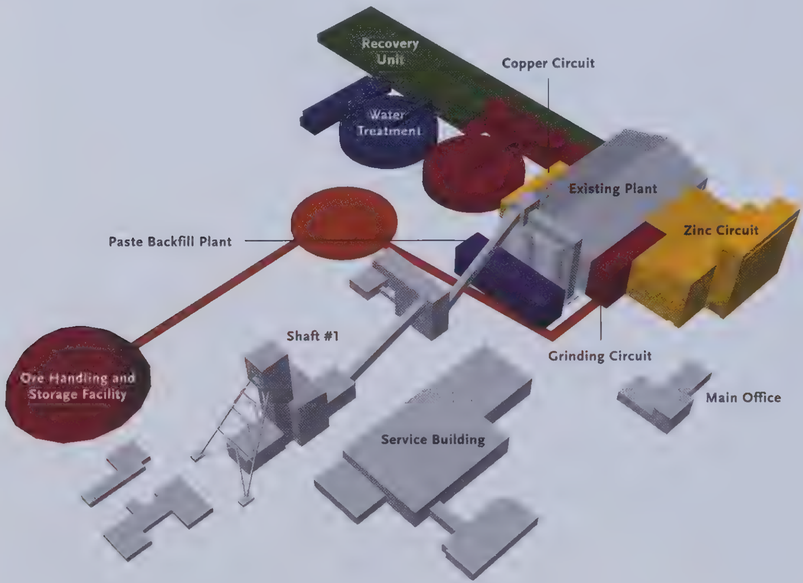
The Phase II expansion will increase the daily mill tonnage rate from the current 2,000 tons per day to 3,600 tons per day, with the potential to handle up to 5,000 tons. Major ongoing projects include expanding the new circuits and completing the environmental facilities.

Construction of the new grinding circuit has begun, and installation of a new SAG mill with a capacity of 5,000 tons per day has also started. The grinding circuit expansion will be completed by the middle of 1999. Design of the gold recovery circuits is being finalized, with construction expected to start mid-year.

Expansion of environmental facilities began in 1998 with the completion of plans to contain over 30 million tons of mine tailings. Construction to increase this capacity for an additional five years started during the third quarter of 1998, and will be finished by the second quarter of 1999. The design for the acid water treatment plant was completed in 1998. Building is scheduled to start at the end of the first quarter of 1999, with the plant to be operational by year-end.

Once the mill and underground projects are completed, annual production of 220,000 ounces of gold, 1.6 million ounces of silver, 7.0 million pounds of copper and 75.0 million pounds of zinc is projected. Assuming metal prices of US$0.50 per pound for zinc, US$0.75 per pound for copper and US$5.00 per ounce for silver, the estimated cash costs to produce an ounce of gold after deducting the byproduct revenue could be as low as US$125 per ounce in 2001.

EXPANDED MILLING FACILITY



The improved ore reserve position has prompted a detailed study of the feasibility of increasing throughput from the currently planned 3,600 to 5,000 tons per day (TPD). This study is expected to be completed during the second quarter of this year. Before proceeding to the higher production rate, we would expect to meet the following criteria:

- A minimum reserve/resource position of 36.0 million tons of ore;
- Proven and probable gold reserves of 1.5 million ounces;
- Payback on incremental investment in better than three years; and
- Financing secured for the required additional investment.

CAPITAL COST ESTIMATES

Estimated preliminary capital costs are C$60 million, C$35 million of which is for mining infrastructure, including a hoisting facility upgrade, incremental underground development and additional mining equipment. The estimated capital cost for upgrading the processing facilities is C$25 million, which includes increasing capacity from 3,600 to 5,000 TPD for the copper, zinc, grinding and gold recovery circuits, as well as the water treatment plant.

The production hoist upgrade would allow for hoisting of 5,000 TPD of ore from the proposed Shaft #3 depth of 7,350 feet.

Plans to access mineralization identified below the planned Shaft #3 depth of 7,350 feet will be finalized upon completion of a detailed drilling program that will be conducted from an exploration drift next year.

MINING AND DEVELOPMENT PLANS

Drilling results in 1998 confirmed that Zone 20N is significantly thicker and larger than originally calculated and that Zone 7 has higher gold grades than anticipated. Results at depth indicated that the gold component of Zone 20N had increased to 12.6 million tons grading 0.18 ounces of gold per ton. In a 5,000-TPD scenario, additional tonnage would come from this zone as well as Zones 20S and 7 at depth.

Additional hoisting capacity would be needed because the present infrastructure and hoisting capacity are inadequate for handling the ore and development waste necessary to sustain a 5,000-TPD production rate. An early decision to modify the hoist would accelerate the underground preproduction development required on the lower mining levels.

In the overall plan, at 5,000-TPD, ore would be sourced from six areas in Zones 20N, 20S and 7, providing sufficient flexibility to ensure a steady supply of ore at the higher production rate.

[illegible] PROFILE

Based on a proposed mining plan, gold production would increase from 220,000 to 280,000 ounces per year; silver production would increase to 2.3 million ounces; copper, to 15.0 million pounds; and zinc, to 90.0 million pounds. These levels could be reached by 2002, one year after completion of the 3,600-TPD operating plan.

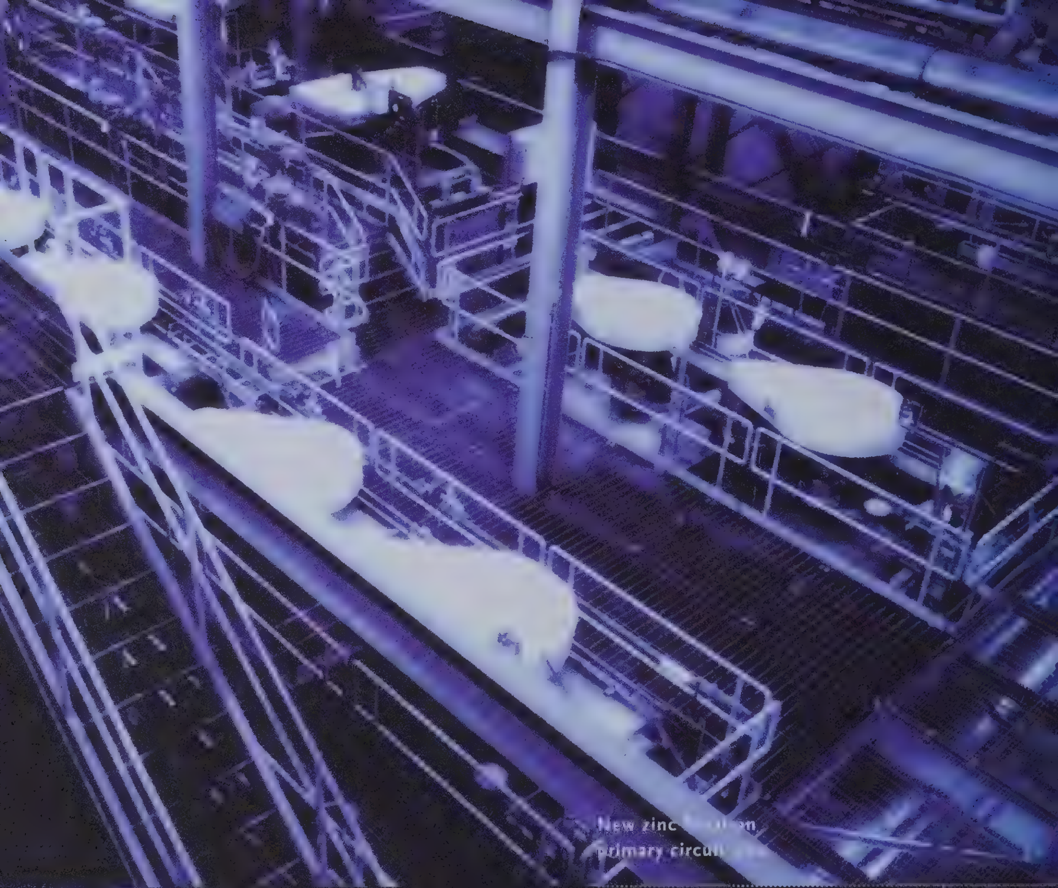
[illegible] COSTS

Because of the better-than-expected ground conditions and thicker mineralization encountered in Zone 20N, unit costs (including mining, milling, services and administration) have been estimated to be C$55.00 per ton at 3,600 TPD and C$50.00 per ton at 5,000 TPD. On a per-ounce basis, costs (net of byproduct revenue) could be reduced from US$125 to US$100 per ounce of gold under the 5,000-TPD scenario.

MANPOWER REQUIREMENTS

The mine currently requires 295 employees to mine and mill 2,000 TPD. Manpower requirements to achieve 5,000 TPD have been estimated at 390. Additional employees would include operating and maintenance personnel for the new facilities and larger equipment fleet, and more development miners to sustain the 5,000-TPD mining rate.

Shaft #3 headframe backleg. The installation is capable of hoisting 3,600 tons per day.



New zinc flotation primary circuit.

Concentrate filter press feeding system.

Zinc concentrate regrind circuit.

Copper, gold and silver bearing froth from column flotation.

The following is a discussion and analysis of the consolidated financial condition and results of operations of Agnico-Eagle. The discussion and analysis should be read in conjunction with the financial information included in the consolidated financial statements.

All amounts in this discussion and analysis are expressed in Canadian dollars unless otherwise noted. Agnico-Eagle's consolidated financial statements have been expressed in Canadian dollars. As a result of the Company's substantial U.S. shareholder base and increasing U.S.-dollar-denominated revenues and operating costs, the U.S. dollar has been adopted as the currency of measurement for Agnico-Eagle's consolidated financial statements effective January 1, 1999. The change in reporting currency, which will be applied to prior-year comparative amounts, is detailed in note 10(a) of the consolidated financial statements.

RESULTS OF OPERATIONS

For the year ended December 31, 1998, Agnico-Eagle reported a net loss of $11.5 million, or $0.23 per share, compared to a net loss, before write-downs, of $10.4 million, or $0.24 per share, in 1997 and net earnings of $0.3 million, or $0.01 per share, in 1996. Including write-downs, Agnico-Eagle's prior-year loss was $121.6 million, or $2.83 per share. Operating cash flow, before changes in non-cash working capital items, was $1.9 million, or $0.04 per share, in 1998 compared to a cash deficit of $1.3 million, or $0.03 per share, in 1997 and operating cash flow of $16.0 million, or $0.41 per share, in 1996.

The slight variation in loss (before write-downs) in 1998 from that reported in 1997 was due to a 12% decrease in the gold price realized (US$296 per ounce versus US$336 per ounce) and a decrease in gold production, offset by lower exploration expenses. In addition, prior-year results included a write-down of $4.8 million related to Agnico-Eagle's bullion position. When compared to 1996 results, a 24% decrease in the gold price realized (US$296 per ounce versus US$389 per ounce) and lower gold production were only partly offset by lower exploration expenses.

Consolidated cash and cash equivalents increased to $116.9 million in 1998 from $92.5 million at the end of 1997 and $87.1 million at the end of 1996. In 1998, net proceeds of $95.5 million were received from the issuance of 9.3 million common shares while cash outflows included $67.1 million of capital expenditures. In 1997, net proceeds of $56.1 million were received from the issuance of 4.0 million common shares, offset by capital expenditures of $52.3 million on LaRonde and advanced exploration properties.

Income from Gold Production

The Company's primary source of revenue is from the sale of its gold production. Byproduct revenues from zinc, copper and silver, net of treatment and refining charges, are netted against costs of production in the consolidated statements of income. The Company produced 150,443 ounces of gold in 1998, compared to 154,515 ounces in 1997 and 159,558 ounces

in 1996. Income from gold production was essentially unchanged in 1998 from that reported in 1997 in spite of a 12% decrease in the gold price realized and a 3% decrease in production, as 1997 results included a write-down of $4.8 million related to Agnico-Eagle's bullion position. As compared to 1996, income from gold production decreased by 22%, due to a lower realized gold price and lower gold production.

Costs of Production

Costs of production, net of byproduct credits, increased to $49.8 million in 1998 from $47.8 million in 1997 and $47.7 million in 1996. In 1998, a small reduction in on-site cash operating costs per ton milled at LaRonde and revenues from the newly commissioned zinc circuit were offset by a 30% decrease in copper production and lower overall byproduct prices when compared to the 1997 reported costs of production. Similarly, when compared to 1996 costs of production, lower on-site cash operating costs in 1998 were offset by decreases in byproduct production and revenues.

Cash operating costs to produce an ounce of gold were US$212 per ounce, compared to US$216 per ounce in 1997, but higher than the US$208 per ounce reported in 1996. Lower gold production and lower byproduct copper production in 1998 compared to 1997 were offset by a weaker Canadian dollar and higher byproduct zinc production, which began in the third quarter of 1998. When compared to 1996 unit costs, the weaker Canadian dollar in 1998 only partially compensated for a 6% decrease in gold production.

[illegible] CE TO FINANCIAL STATEMENTS

(C$ thousands, except as noted)	1998	1997	1996
Costs of production per income statement	**$ 49,845**	$ 47,836	$ 47,662
Less:			
Non-cash reclamation provision	**(746)**	(784)	(477)
Standby costs – closed properties	**(1,963)**	(823)	(1,897)
Cash operating costs	**$ 47,136**	$ 46,229	$ 45,288
US$/C$ exchange rate	**0.6751**	0.7220	0.7336
Cash operating costs (US$ thousands)	**$ 31,822**	$ 33,337	$ 33,223
Gold production (oz)	**150,443**	154,515	159,558
Cash operating costs (US$/oz)	**$ 212**	$ 216	$ 208
Non-cash costs (US$/oz)			
Reclamation provision	**3**	4	2
Depreciation and amortization	**42**	50	47
Total operating costs (US$/oz)	**$ 257**	$ 270	$ 257

Exploration Expense

Exploration expense, excluding capitalized costs associated with exploration on the LaRonde property, of $3.6 million compares to $6.3 million in 1997 and $4.2 million in 1996. Exploration activity continued to be focused in northeastern Ontario and northwestern Quebec but was curtailed significantly in 1998 to conserve cash in a difficult gold price environment and to focus expenditures on high-priority projects. As part of its effort to further rationalize its exploration activities, the merger of Agnico-Eagle's two principal exploration subsidiaries, Sudbury Contact and Silver Century, was announced in December 1998 and was effected by a plan of arrangement in February 1999.

Depreciation and Amortization

Depreciation and amortization was $9.5 million in 1998, compared to $10.8 million in 1997 and $10.2 million in 1996. Expressed per ounce of gold production, depreciation and amortization decreased to US$42 per ounce in 1998, compared to US$50 per ounce in 1997 and US$47 per ounce in 1996. The Company calculates its depreciation and amortization on a unit-of-production basis. Expanded reserves and a weaker Canadian dollar were the main factors behind the decrease in the cost per ounce. Depreciation and amortization per ounce of gold production are expected to remain in the range realized over the last three years for the foreseeable future because an expanded reserve base will be offset by higher depreciable asset pools as new and expanded assets are brought into production.

General and Administrative Expense

General and administrative expenses were $5.5 million in 1998, down from $5.8 million in 1997 and $5.7 million in 1996. The Company has made a concerted effort to control head office costs, given the gold price environment, by streamlining its corporate structure. As part of this initiative, the merger of Sudbury Contact and Silver Century and the sale of a number of publicly listed junior companies in the Agnico-Eagle group of companies have been undertaken.

Capital Taxes

Capital taxes increased slightly to $1.8 million in 1998 compared to those reported in 1997 and 1996. Capital taxes represent provincial taxes assessed on the Company's capitalization (paid-up capital and debt) less certain allowances. The Company's paid-up capital increased in 1998 as a result of a share issuance in May 1998.

Write-Down of Mining Properties

While no write-downs were recorded in 1998, the Company adjusted the carrying value of its assets in the prior year. In 1997, $122.0 million of non-cash write-downs, before deferred taxes, were recorded against certain advanced exploration and development projects to reflect the depressed gold price. In addition, $5.5 million of bullion and investment write-downs, before deferred taxes, were recorded in that year. Net of deferred taxes, the write-downs totalled $111.2 million.

The mining property write-downs recorded in 1997 reduced the carrying value of those assets to nil. In 1998, $2.8 million of expenditures were capitalized at Victoria Creek until exploration work on the property ceased in June. While the Company does not believe that the property is economically feasible at current gold prices, the salvage value of the fixed assets on the property and the realizable value of the mineral resource itself are expected to be sufficient to recover the carrying value.

Interest and Sundry Income

Interest and sundry income was $6.0 million in 1998, compared to $3.9 million in 1997 and $5.6 million in 1996. In 1998, the average interest rate on a six-month Canadian treasury bill was 4.90%, compared to 3.60% in 1997 and 4.50% in 1996.

Currency Translation Loss on Senior Convertible Notes

The non-cash foreign-exchange loss was $2.2 million in 1998, compared to $1.1 million in 1997 and $0.5 million in 1996. This loss arises from the translation of Agnico-Eagle's U.S.-dollar-denominated senior convertible notes, which have a face value of US$126.5 million. These notes must be translated at the current rate on the balance sheet date and the gain or loss amortized into income over the remaining life of the notes. The increased loss reflects a substantial weakening in the Canadian dollar in 1998. On December 31, 1998, the Canadian dollar closed at $1.5333 to the U.S. dollar, compared to $1.4293 on December 31, 1997.

Other Expense

This was reported as nil in 1998 and 1997, compared to $5.0 million in 1996. The amount recorded in 1996 represented a non-recurring payment to the estate of a former President of the Company, pursuant to an employment agreement.

Interest Expense

The Company reported interest expense of $13.2 million in 1998, compared to $12.1 million in 1997 and $11.5 million in 1996. This amount largely represents the interest expense on the Company's senior convertible notes. Of this amount, US$4.4 million is paid in cash interest each year and approximately US$4.0 million represents annual non-cash amortization of the discount on the notes. While these U.S. dollar amounts do not vary considerably from year to year, a significant weakening of the Canadian dollar resulted in higher reported interest expense.

Income and Mining Taxes

The effective tax rate in 1998 was 30.7%, compared to 13.6% in 1997, 38.8% in 1996 and the statutory rate of 38.6%. The difference between the effective rate of tax recovery and the statutory rate of tax recovery in 1998 is that permanent differences related to certain expenses incurred by subsidiaries of Agnico-Eagle are not deductible in computing taxable income of the Company. In addition, federal minimum taxes (Large Corporations Tax) lower the rate of tax recovery in tax-loss years; however, since these minimum taxes are recoverable in years where tax earnings are positive, the effective tax rate should be reduced by this credit in future years.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash and cash equivalents increased to $116.9 million at the end of 1998, an increase of $24.5 million from 1997 and an increase of $29.9 million from 1996. Including metals awaiting settlement and bullion on hand, the Company has $152.5 million available to complete the expansion program at the LaRonde Division.

Operating Activities

Cash flow from operating activities was $1.9 million in 1998, compared to a deficit of $1.3 million in 1997 and cash flow of $16.0 million in 1996. Cash flow in 1998 improved over that in 1997 as decreases in the gold price realized and gold production were more than offset by lower exploration expenses and a mark to market loss on Agnico-Eagle's bullion position recorded in 1997. When compared to 1996 cash flow, a decrease in the gold price realized and lower gold production was only partly offset by lower exploration expenses.

Investing Activities

Capital expenditures in 1998 were focused at the LaRonde Division with $64.3 million invested, compared to $37.8 million in 1997 and $35.1 million in 1996. Major expenditures in 1998 included $28.0 million for expansion of surface facilities, $16.3 million for underground drifting and drilling and $13.4 million for the sinking of Shaft #3. At the Victoria Creek Project of subsidiary Sudbury Contact, $2.8 million was spent before exploration activity ceased in June 1998.

Over the next three years, $147 million is forecast to be spent to complete Shaft #3 and to complete the expansion of the LaRonde facilities to a capacity of 3,600 tons per day from 2,000 tons per day, as well as on sustaining capital. Major investments include $52 million to complete the expansion of the mill, $39 million for underground development and services, $18 million for the ventilation system, $14 million for underground construction and equipment and $14 million for shaft work and exploration drilling.

Financing Activities

In 1998, the Company completed the financing of the LaRonde expansion to a capacity of 3,600 tons per day by completing a public issue of 9.3 million common shares for net proceeds of $95.5 million. Agnico-Eagle is currently undertaking a study of a further expansion of the LaRonde facilities because of a larger reserve and mineral resource base. The investment required for this potential additional expansion has not yet been quantified; however, sources of external financing could include bank borrowings, other debt or equity financings.

The Company continued its policy of annual dividends with the declaration of a US$0.02 per share dividend in 1998, unchanged from 1997. This return to shareholders represented the 19th consecutive year in which Agnico-Eagle has paid a cash dividend to its shareholders. While this amount is lower than those Agnico-Eagle's shareholders have received in some prior years, the Company is conserving cash for the expansion program at LaRonde. Although the Company expects to continue paying an annual cash dividend, future dividends will be at the discretion of the Company's Board of Directors and will be subject to such factors as the Company's earnings, financial condition and capital requirements.

Financial Risk

Agnico-Eagle's profitability and cash flow are significantly affected by fluctuations in metal prices and U.S./Canadian dollar exchange rates. Based on 1999 production estimates, the approximate sensitivities of Agnico-Eagle's earnings and cash flow to changes in metal prices and exchange rates are as follows (these have been expressed in U.S. dollars to reflect the Company's change in reporting currency that became effective on January 1, 1999):

	Change in variable	Effect on net income and cash flows (thousands)	Effect per share
Gold (per ounce)	US$30.00	US$3,300	US$0.06
Zinc (per pound)	US$ 0.05	US$ 600	US$0.01
Copper (per pound)	US$ 0.08	US$ 300	US$0.00
Silver (per ounce)	US$ 0.50	US$ 200	US$0.00
U.S./Canadian dollar	US$ 0.10	US$5,100	US$0.09

In order to mitigate the impact of fluctuating metal prices, Agnico-Eagle can enter into hedging transactions under its Metal-Price Risk Management Policy, approved by the Board of Directors. The Company's practice is not to sell forward its gold production; however, the policy does allow the Company to review this practice on a project-by-project basis, making use of hedging facilities where appropriate to ensure an adequate return to shareholders on new projects. In addition, under any circumstance, the Company does review various price-protection strategies that would allow it to obtain a minimum floor price for future gold production without limiting the Company's ability to participate in increases in the price of gold. The policy also permits the hedging of its exposure to byproduct metal production. As at December 31, 1998, the Company had not hedged any of its metal production. Agnico-Eagle's Metal-Price Risk Management Policy only allows hedging of Agnico-Eagle's specific exposures and does not permit speculative trading.

Prices for the metals that Agnico-Eagle sells are quoted in U.S. dollars. As a result, Agnico-Eagle receives all its revenues, net of treatment and refining charges, in U.S. dollars and pays most of its operating and capital costs in Canadian dollars. This gives rise to significant foreign-currency transaction exposure, as shown in the table above. Agnico-Eagle can enter into hedging transactions under its Foreign-Exchange Risk Management Policy, approved by the Board of Directors, to hedge its transaction exposure. Where possible, the policy requires that natural hedges be used; for example, the interest, and ultimately the principal payment, on the Company's senior convertible notes are denominated in U.S. dollars and therefore can be paid out of U.S. dollar revenues. The policy does not permit the hedging of translation exposure (that is, the gains and losses that arise from the accounting translation of foreign-currency-denominated assets or liabilities) as these do not give rise to any cash exposure. Agnico-Eagle's foreign-exchange hedge position as at December 31, 1998, is summarized in note 10(b) of the consolidated financial statements. Agnico-Eagle's Foreign-Exchange Risk Management Policy only allows hedging of Agnico-Eagle's specific exposures and does not permit speculative trading.

Fluctuations in interest rates can affect earnings and cash flows. All of Agnico-Eagle's debt is at a fixed interest rate; however, Agnico-Eagle maintains a significant cash balance that is subject to variable interest rates. A change of 100 basis points in interest rates would have approximately a $1 million after-tax impact on earnings and cash flow given Agnico-Eagle's current cash balance. Agnico-Eagle has a Short-Term-Investment Risk Management Policy, approved by the Board of Directors, that permits investment of these cash balances only in short-term money market instruments of the highest credit quality.

Operational Risk

The Company is subject to various risks that it encounters in its day-to-day operations. It mitigates the likelihood and potential severity of these risks through the application of high standards in the planning, construction and operation of its facilities. In addition, emphasis is placed on hiring and retaining competent personnel and developing their skills through training in safety and loss control. Agnico-Eagle's operating and technical personnel have a solid track record of developing and operating precious-metal mines, and Agnico-Eagle's LaRonde Division has been recognized for its excellence in this regard with various safety and development awards. The Company also transfers its normal business risks through the purchase of insurance coverage. Agnico-Eagle's purchase of insurance coverage is governed by an Insurable Risk Management Policy, approved by the Board of Directors, that permits the purchase of coverage only from insurance companies of the highest credit quality.

Environmental Risk

The Company's mining and processing operations are subject to reclamation and closure requirements. The Company monitors such requirements regularly and revises its cost estimates to meet the legal and regulatory requirements of the jurisdictions in which it currently operates and has operated in the past. Plans for ongoing operations and development and acquisition decisions are made with due consideration to reclamation and closure requirements. Although the ultimate cost of environmental liabilities is unknown, the Company estimates that these costs will total approximately $18.6 million by the end of LaRonde's mine life, of which Agnico-Eagle currently has accrued $7.2 million at December 31, 1998.

Year 2000

The Company is fully aware of the potential disruption that may be caused by the passage to the year 2000 and other data-related problems associated with it.

The primary concern has been the financial systems used by Agnico-Eagle. The majority of the Company's critical systems have been confirmed by the Company's vendors to be year-2000-compliant. Over the first quarter of 1999, these systems were upgraded to the most recent versions that are confirmed to be compliant.

The inventory of equipment and instrumentation used in Agnico-Eagle's mine operations has been completed. Testing of these systems and contacting of customers and suppliers to confirm compliance has been completed for critical process-control equipment. Moreover, suppliers have been requested to warrant compliance of date-sensitive instrumentation as a condition attached to any purchase order issued for such instrumentation.

Based on the Company's current assessment, Agnico-Eagle has determined that most of its mission-critical systems are already year-2000-compliant and major systems modification is not expected. Therefore, costs to complete this process are not expected to be material.

During the fourth quarter of 1998, critical third-party suppliers and financial institutions were identified and contacted regarding their preparedness for the transition to the year 2000. Reliability of the commitments or comfort that they offer will then be evaluated and a contingency plan will be defined where either criticality or insufficient comfort warrants it. This will be equally the case for financial systems and mine operation equipment and instrumentation.

The time frames during which the Company believes it will complete its year-2000 analysis and modifications and the cost estimates to complete these modifications are based on management's best estimates, which were made in reliance on numerous assumptions of future events, including the continued availability of certain resources and other factors. Any change in these assumptions may affect projections made by the Company. There can be no guarantee that the estimated time frames and costs will be achieved; actual results could differ materially from those anticipated.

Agnico-Eagle's gold production is budgeted to decrease in 1999 to 130,000 ounces with cash costs essentially unchanged from those reported in 1998. The forecasted decrease in production from LaRonde is attributable to the fact that lower gold grades will be mined from Shafts #1 and #2 as the lives of those shafts wind down and production commences from the zinc/silver areas of Zone 20N in Shaft #3. The mill is expected to reach its expanded capacity of 3,600 tons per day in the third quarter of 1999, and Shaft #3 is projected to reach its ultimate depth of 7,350 feet by the fourth quarter; however, as originally scheduled, the full benefits of LaRonde's expansion, in terms of lower unit costs and higher gold production, are not expected to be achieved until the second half of 2000, when much of the initial development of the lower gold-rich portion of Zone 20N is completed. By that time, LaRonde is expected to produce 220,000 ounces of gold per annum at a cash operating cost, net of byproduct credits, of under US$125 per ounce at current metal prices and exchange rates.

Agnico-Eagle is currently evaluating the feasibility of a further expansion of mine capacity at LaRonde in light of positive definition and exploration drilling results. This study is expected to be completed in the second quarter of 1999. Over the course of 1999, the pace of definition drilling and exploration drilling at depth is expected to accelerate due to the completion of the shaft and improved underground access as development in Shaft #3 intensifies. As a result, the Company expects to convert much of its stated resource to reserve and will be better able to test the boundaries of ore bodies that continue to be open in all directions.

In 1998, proven and probable reserves were recalculated based on a gold price of US$300 per ounce of gold. Notwithstanding this recalculation, at December 31, 1998, the Company had approximately 1.3 million contained ounces of gold in proven and probable reserves, a 59% increase over the prior year's reserves. At current and expected mining rates, the Company's sole producing LaRonde Mine has a mine life of approximately 14 years of production. In addition, the Company currently has an estimated mineral resource at the LaRonde Mine of approximately 4.6 million ounces.

1998 SUMMARIZED QUARTERLY DATA

(C$ thousands, except per share and per ounce amounts)	Quarterly period ended Mar. 31	June 30	Sept. 30	Dec. 31	Year 1998
CONSOLIDATED FINANCIAL DATA					
Income and cash flow					
Income from gold production	$ 15,275	$ 16,611	$ 15,266	$ 15,981	$ 63,133
Net loss for the period	$ (3,266)	$ (3,003)	$ (3,883)	$ (1,310)	$ (11,462)
Loss per share	$ (0.07)	$ (0.06)	$ (0.07)	$ (0.02)	$ (0.23)
Operating cash flow *[note 1]*	$ (43)	$ 502	$ 365	$ 1,109	$ 1,933
Operating cash flow per share	$ –	$ 0.01	$ 0.01	$ 0.02	$ 0.04
Average gold price per ounce realized – US$	$ 296	$ 300	$ 292	$ 294	$ 296
Average exchange rate – US$ per C$	$ 0.6999	$ 0.6918	$ 0.6607	$ 0.6482	$ 0.6751
Weighted average number of shares (in thousands)	43,846	46,756	53,017	53,182	50,005
OPERATING AND FINANCIAL SUMMARY					
LaRonde Division					
Income from gold production	$ 15,275	$ 16,611	$ 15,266	$ 15,981	$ 63,133
Mine operating costs (net of byproduct revenues)	11,159	12,704	12,193	11,826	47,882
Mine operating profit	$ 4,116	$ 3,907	$ 3,073	$ 4,155	$ 15,251
Tons of ore milled	182,516	198,293	207,262	188,681	776,752
Grade – ounces of gold per ton	0.21	0.22	0.19	0.21	0.21
Gold production – ounces	35,732	40,580	37,075	37,056	150,443
Zinc production – pounds	–	–	190,052	1,041,394	1,231,446
Copper production – pounds	1,417,704	1,529,258	1,677,246	1,526,855	6,151,063
Silver production – ounces	60,120	76,684	70,997	62,184	269,985
On-site operating costs per ton milled	$ 74	$ 78	$ 61	$ 69	$ 66
OPERATING COSTS PER GOLD OUNCE PRODUCED (US$)					
On-site operating costs (including reclamation provision)	$ 235	$ 225	$ 226	$ 227	$ 229
Less: Non-cash reclamation provision	(3)	(3)	(3)	(3)	(3)
Net byproduct revenues	(17)	(9)	(9)	(20)	(14)
Cash operating costs	215	213	214	204	212
Non-cash costs:					
Reclamation provision	3	3	3	3	3
Depreciation and amortization	49	46	34	41	42
Total operating costs	$ 267	$ 262	$ 251	$ 248	$ 257

[1] Before non-cash working capital adjustments.

Year ended December 31 (C$ thousands, except per share and per ounce amounts)	1998	1997	1996	1995	1994
FINANCIAL DATA					
Income from gold production	$ 63,133	$ 63,382	$ 80,859	$ 88,344	$ 76,562
Costs of production and other expenses	70,283	72,154	69,207	58,700	57,790
Write-down of mining properties	–	122,041	–	–	–
Operating income (loss)	(7,150)	(130,813)	11,652	29,644	18,772
Other income (expenses)	(9,387)	(9,900)	(11,136)	58	1,646
Income and mining tax recoveries (expenses)	5,075	19,119	(200)	(11,089)	(8,180)
Net income (loss)	$ (11,462)	$ (121,594)	$ 316	$ 18,613	$ 12,238
Earnings (loss) per share	$ (0.23)	$ (2.83)	$ 0.01	$ 0.50	$ 0.33
Operating cash flow *[note 1]*	$ 1,933	$ (1,313)	$ 15,987	$ 44,162	$ 30,926
Operating cash flow per share	$ 0.04	$ (0.03)	$ 0.41	$ 1.20	$ 0.84
Cash dividend declared per share – US$	$ 0.02	$ 0.02	$ 0.10	$ 0.10	$ 0.10
Capital expenditures	$ 67,119	$ 52,290	$ 54,343	$ 59,924	$ 38,133
Average gold price per ounce realized – US$	$ 296	$ 336	$ 389	$ 384	$ 388
Average exchange rate – US$ per C$	$ 0.6751	$ 0.7220	$ 0.7336	$ 0.7269	$ 0.7319
Weighted average number of shares (in thousands)	50,005	42,918	38,741	37,137	36,880
Working capital	$ 143,318	$ 111,760	$ 119,830	$ 137,279	$ 157,073
Total assets	$ 430,478	$ 332,176	$ 409,152	$ 380,678	$ 354,068
Senior convertible notes	$ 161,363	$ 145,104	$ 134,275	$ 128,842	$ 127,818
Common shareholders' equity	$ 221,478	$ 135,841	$ 201,163	$ 190,954	$ 173,363
OPERATING AND FINANCIAL SUMMARY					
LaRonde Division					
Income from gold production	$ 63,133	$ 63,382	$ 80,859	$ 88,344	$ 76,533
Mine operating costs (net of byproduct revenues)	47,882	47,013	45,765	35,073	34,436
Mine operating profit	$ 15,251	$ 16,369	$ 35,094	$ 53,271	$ 42,097
Tons of ore milled	776,752	785,539	729,362	728,064	620,217
Grade – ounces of gold per ton	0.21	0.21	0.24	0.25	0.25
Gold production – ounces	150,443	154,515	159,558	167,209	144,584
Zinc production – pounds	1,231,446	–	–	–	–
Copper production – pounds	6,151,063	8,844,441	10,489,087	12,183,871	10,267,443
Silver production – ounces	269,985	279,938	295,674	330,532	268,004
On-site operating costs per ton milled	$ 66	$ 67	$ 71	$ 66	$ 69
Operating costs per gold ounce produced (US$):					
On-site operating costs (including reclamation provision)	$ 229	$ 247	$ 238	$ 208	$ 217
Less: Non-cash reclamation provision	(3)	(4)	(2)	(2)	(2)
Net byproduct revenues	(14)	(27)	(28)	(55)	(43)
Cash operating costs	$ 212	$ 216	$ 208	$ 151	$ 172
Non-cash costs:					
Reclamation provision	3	4	2	2	2
Depreciation and amortization	42	50	47	43	48
Total operating costs	$ 257	$ 270	$ 257	$ 196	$ 222

[1] Before non-cash working capital adjustments.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Agnico-Eagle Mines Limited and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles that are generally accepted and considered to be the most appropriate in the circumstances. The consolidated financial statements are not precise, since they include amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

Agnico-Eagle Mines Limited maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, and all of its members are independent directors. The Audit Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

Sean Boyd

Sean Boyd, C.A.
President and Chief Executive Officer

David Garofalo

David Garofalo, C.A.
Vice-President, Finance

Toronto, Canada,
February 26, 1999.

We have audited the consolidated balance sheets of Agnico-Eagle Mines Limited as at December 31, 1998 and 1997 and the consolidated statements of income (loss), retained earnings (deficit) and contributed surplus and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1998 in accordance with accounting principles generally accepted in Canada.

As described in note 8, the Company adopted the liability method of tax allocation for accounting for future income and mining taxes effective January 1, 1998.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Toronto, Canada,
February 26, 1999.

These consolidated financial statements of Agnico-Eagle Mines Limited ("Agnico-Eagle" or the "Company") are expressed in thousands of Canadian dollars, except where noted, and have been prepared in accordance with accounting principles generally accepted in Canada which, as applied in these consolidated financial statements, are consistent in all material respects with accounting principles generally accepted in the United States, except as described in note 11. Since a precise determination of many assets and liabilities depends on future events, the presentation of consolidated financial statements for a period necessarily involves the use of estimates and approximations. Actual results may differ from such estimates and approximations. The consolidated financial statements have, in management's opinion, been prepared within reasonable limits of materiality and within the framework of the accounting policies referred to below.

BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Company and all its subsidiaries, including its associated company, Mentor Exploration and Development Co., Limited ("Mentor"), which is classified as a subsidiary for accounting purposes. The Company consolidates its 49.5% effective direct and indirect ownership interest in Mentor on the basis of the Company's ability to determine its strategic operating, investing and financing policies.

Agnico-Eagle recognizes gains and losses on the effective disposition of interests in associated companies arising when such associated companies issue treasury shares to third parties. Gains are recognized only if there is reasonable assurance of realization.

COMPANY'S OWN SHARES HELD BY SUBSIDIARY COMPANIES

The cost of Agnico-Eagle shares held by subsidiary companies has been presented in the consolidated balance sheets as a reduction of shareholders' equity. Similarly, Agnico-Eagle's earnings per share have been calculated based on the weighted average number of shares outstanding after reduction for the Company's own shares held by subsidiary companies. Changes in the Company's own shares held by subsidiary companies result from purchases and sales of Agnico-Eagle shares by subsidiary companies.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on account and short-term investments in money market instruments with maturities of three months or less. Short-term investments are carried at cost, which approximates market value.

SUPPLIES

Supplies, consisting of mine stores inventory, are valued at the lower of average cost and replacement cost.

DEFERRED FINANCING COSTS

Deferred financing costs, which are included in investments, loans, advances and other assets on the consolidated balance sheets and relate to the issuance of the senior convertible notes, are being amortized to income over the term of that obligation. If the holders exercise

their conversion option, the common shares issued on such conversion will be recorded at an amount equal to the aggregate of the carrying value of the long-term liability and the conversion option extinguished, net of the associated deferred foreign exchange loss and financing costs, with no gain or loss being recognized in earnings.

MINING PROPERTIES, PLANT AND EQUIPMENT AND DEFERRED EXPENDITURES

Mining properties are carried at cost and are amortized using the unit-of-production method based on the expected economic life of each mine. Mining properties that are abandoned are written off.

Plant and equipment, including improvements, are initially recorded at cost. Agnico-Eagle records depreciation on plant and equipment used in commercial production on a unit-of-production basis based on the estimated proven and probable ore reserves of the mine. Repairs and maintenance expenditures are charged to costs of production. Major improvements and replacements, which extend the useful life of an asset, are capitalized. Assets under construction are not depreciated until the end of the construction period. Upon commencement of commercial production, the capitalized construction costs are transferred to the various categories of plant and equipment.

Mineral exploration costs are charged to earnings the year in which they are incurred. When it is determined that a mining property has the potential to add to Agnico-Eagle's proven and probable reserves and development is reasonably foreseeable, further development and exploration expenditures are capitalized. Determination as to reserve potential is based on results of feasibility studies which indicate whether a property is economically feasible. Initial feasibility studies are assessed once drilling has confirmed the shape, grades and continuity of the mineralization. Upon commencement of commercial production at a development project, these costs are transferred to mining properties and amortized using the unit-of-production method mentioned above. Deferred expenditures, net of salvage values, relating to a property which is abandoned or considered uneconomic for the foreseeable future are written off.

The carrying values of mining properties, plant and equipment and deferred expenditures are reviewed periodically for possible impairment based on the future undiscounted net cash flows of the operating mine and development property. Estimated undiscounted net cash flows of the operating mine and development properties are calculated using the estimated future expected revenue, estimated operating and future reclamation costs and related future income and mining taxes. If it is determined that the estimated net recoverable amount is less than the carrying value, then a write-down to the estimated net recoverable amount is made with a charge to earnings.

RECLAMATION COSTS

Estimated reclamation costs are based primarily on existing environmental and regulatory requirements. The costs are accrued, on an undiscounted basis, when reasonably determinable, as a cost of production, on a unit-of-production basis over the remaining life of each mine. The estimates are based on existing laws, or on responsible environmental practices in the mining industry in the absence of legislation.

REVENUE RECOGNITION

Agnico-Eagle recognizes income from metals when they have been extracted and processed at the on-site mill facilities. Gold bullion is recorded at net realizable value once it reaches a saleable form and revaluations based on fluctuations in market prices are included in revenue. Metals awaiting settlement include processed copper and zinc concentrates sold to smelters under contractual terms. These metal products, consisting of gold and the byproducts zinc, copper and silver, are recorded at net realizable value based on either contracted or current market prices, where appropriate. Byproduct revenue is accounted for as a reduction of costs of production.

FOREIGN-CURRENCY TRANSACTIONS

The gains and losses arising from the translation of foreign-currency transactions and balances are included in net income, except for those on long-term debt denominated in foreign currency, for which exchange differences are deferred and amortized over the remaining term of the related obligation.

Agnico-Eagle periodically utilizes derivative financial instruments, primarily foreign-currency forward contracts and options, to hedge the effect of exchange-rate changes on identified foreign-currency transaction exposures. Any gains and losses on these contracts are recorded as part of the related transactions, for which they are designated as hedges.

INCOME AND MINING TAXES

In fiscal 1998, Agnico-Eagle adopted the liability method of tax allocation for accounting for income taxes as provided for in the new recommendations of the Canadian Institute of Chartered Accountants ("CICA"). Agnico-Eagle did not restate its comparative figures under these new recommendations. Under the liability method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws expected to be in effect when the differences are expected to reverse.

Prior to the adoption of the new recommendations, income and mining tax expense was determined using the deferral method of tax allocation. Under this method, future income and mining tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

CASH FLOWS

Effective January 1, 1998, Agnico-Eagle retroactively adopted the new accounting recommendations of the CICA pertaining to cash flow statements, which result in reporting only historical changes to cash and cash equivalents in the consolidated statements of cash flows.

PENSION COSTS AND OBLIGATIONS

Agnico-Eagle maintains a defined contribution pension plan covering all its employees. The plan is funded by Company contributions based on a percentage of earnings for services rendered by employees.

Agnico-Eagle had a defined benefit pension plan for its salaried employees until June 30, 1997. Effective July 1, 1997, Agnico-Eagle's defined benefit plan was converted to a defined contribution plan. Effective July 1, 1997, Agnico-Eagle began providing a non-registered supplementary executive retirement defined benefit plan for its senior officers. The executive retirement plan benefits are generally based on the employees' years of service and level of compensation. Pension expense related to the defined benefit plan is the net of management's best estimate of the cost of benefits provided, the interest cost of projected benefits, return on plan assets and amortization of experience gains and losses. Pension fund assets are valued at current market values. Actuarially determined plan surpluses or deficits, experience gains or losses and the cost of pension plan improvements are amortized on a straight-line basis over the expected average remaining service life of the employee group.

[illegible]

Certain items in the comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 1998 consolidated financial statements.

As at December 31 (C$ thousands)	1998	1997
ASSETS		
Current		
Cash and cash equivalents	$ 116,933	$ 92,470
Metals awaiting settlement and gold bullion *[note 1]*	35,588	36,713
Income taxes recoverable	1,095	–
Prepaid expenses, supplies and other	10,055	9,429
Total current assets	163,671	138,612
Investments, loans, advances and other assets *[note 2]*	20,791	12,182
Future income and mining tax asset *[note 8]*	6,226	–
Mining properties *[note 3]*	239,790	181,382
	$ 430,478	$ 332,176
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 10,475	$ 15,407
Dividends payable	2,546	2,147
Income and mining taxes payable	4,424	6,587
Current interest due on senior convertible notes	2,908	2,711
Total current liabilities	20,353	26,852
Senior convertible notes *[note 4]*	161,363	145,104
Reclamation provision	6,911	5,501
Future income and mining tax liabilities *[note 8]*	14,866	11,542
Minority interest	5,507	7,336
Shareholders' Equity		
Common shares *[note 6]*		
Authorized – unlimited		
Issued – 55,112,625 (1997 – 45,663,981)	231,999	242,846
Other paid-in capital *[note 4]*	22,287	22,287
Contributed surplus	5,958	9,482
Deficit	(17,632)	(111,857)
Company's own shares held by subsidiary companies *[note 6(a)]*	(21,134)	(26,917)
Total shareholders' equity	221,478	135,841
	$ 430,478	$ 332,176

Contingencies *[note 7]*

See accompanying notes

On behalf of the Board:

Sean Boyd

Sean Boyd, C.A.
Director

Bernard Kraft, C.A.
Director

Years ended December 31 (C$ thousands, except per share amounts)	1998	1997	1996
Income from gold production	$ 63,133	$ 63,382	$ 80,859
Costs of production, net of byproduct revenue of $10,265 (1997 – $13,933; 1996 – $15,739) *[note 1]*	49,845	47,836	47,662
	13,288	15,546	33,197
Exploration expense	3,636	6,282	4,230
Depreciation and amortization	9,462	10,764	10,165
General and administrative expense *[notes 9(a), (b)]*	5,505	5,842	5,677
Capital taxes	1,835	1,430	1,473
Write-down of mining properties and other mining assets *[note 3]*	–	122,041	–
Operating income (loss)	(7,150)	(130,813)	11,652
Other income (expense):			
Interest and sundry income	6,014	3,945	5,627
Gain (loss) on sale and write-down of investments *[note 2(a)]*	(10)	(704)	232
Currency translation loss on senior convertible notes	(2,211)	(1,064)	(536)
Other expense *[note 9(c)]*	–	–	(5,000)
Interest expense *[note 4]*	(13,180)	(12,077)	(11,459)
	(9,387)	(9,900)	(11,136)
Income (loss) before income and mining taxes	(16,537)	(140,713)	516
Income and mining tax expense (recovery) *[note 8]*	(5,075)	(19,119)	200
Net income (loss) for the year	$ (11,462)	$ (121,594)	$ 316
Earnings (loss) per share	$ (0.23)	$ (2.83)	$ 0.01

See accompanying notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT) AND CONTRIBUTED SURPLUS

Years ended December 31 (C$ thousands)	1998	1997	1996
RETAINED EARNINGS (DEFICIT)			
Balance, beginning of year	$ (111,857)	$ 13,895	$ 18,847
Net income (loss) for the year	(11,462)	(121,594)	316
	(123,319)	(107,699)	19,163
Dividends declared (1998 and 1997 – US$0.02 per share; 1996 – US$0.10 per share)	(1,662)	(1,256)	(5,268)
Share issue costs *[note 6(d)]*	(4,511)	(2,902)	–
Reduction of stated capital *[note 6(e)]*	111,860	–	–
Balance, end of year	$ (17,632)	$ (111,857)	$ 13,895
CONTRIBUTED SURPLUS			
Balance, beginning of year	$ 9,482	$ 9,482	$ 9,567
Loss on sale of the Company's own shares held by subsidiary companies, net of related income taxes of $977 (no comparative figure for 1997; 1996 – $9,014)	(3,524)	–	(85)
Balance, end of year	$ 5,958	$ 9,482	$ 9,482

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (C$ thousands)	1998	1997	1996
OPERATING ACTIVITIES			
Net income (loss) for the year	$ (11,462)	$ (121,594)	$ 316
Add (deduct) items not affecting cash:			
Write-down of mining properties and other mining assets	–	122,041	–
Depreciation and amortization	9,462	10,764	10,165
Provision for future income and mining taxes	(5,975)	(19,866)	(48)
Amortization of deferred financing costs, interest and foreign-exchange loss on senior convertible notes	8,499	6,324	5,607
Reclamation provision	1,399	279	184
Other	10	739	(237)
	1,933	(1,313)	15,987
Net change in non-cash working capital balances related to operations:			
Metals awaiting settlement and gold bullion	1,125	13,711	(16,330)
Prepaid expenses, supplies and other	(926)	565	(3,346)
Accounts payable and accrued liabilities	1,618	(2,469)	1,775
Income and mining taxes (recoverable) payable	1,158	29	(1,414)
Current interest due on senior convertible notes	197	111	13
Cash flows from (used in) operating activities	5,105	10,634	(3,315)
INVESTING ACTIVITIES			
Additions to mining properties	(67,119)	(52,290)	(54,343)
Net increase in investments and other assets *[note 2(a)]*	(836)	(8,986)	(4,810)
(Increase in) repayments of advances to related parties *[note 2(b)]*	(750)	(7)	2,680
Cash flows used in investing activities	(68,705)	(61,283)	(56,473)
FINANCING ACTIVITIES			
Dividends	(1,263)	(5,206)	(5,031)
Capital stock issued *[notes 6(b), (c), (d)]*	100,923	68,612	3,565
Share issue costs *[note 6(d)]*	(4,511)	(4,719)	–
Borrowings from (repayments of) amounts due to brokers	(6,539)	5,208	(4,039)
(Purchase) resale of the Company's own shares and other	(547)	(7,847)	27,861
Cash flows from financing activities	88,063	56,048	22,356
Net increase (decrease) in cash during the year	24,463	5,399	(37,432)
Cash and cash equivalents, beginning of year	92,470	87,071	124,503
Cash and cash equivalents, end of year	$ 116,933	$ 92,470	$ 87,071

See accompanying notes

(TABULAR AMOUNTS IN C$ THOUSANDS UNLESS OTHERWISE INDICATED) DECEMBER 31, 1998

1. METALS AWAITING SETTLEMENT AND GOLD BULLION

	1998	1997
Gold bullion	$ 25,734	$ 23,584
Metals awaiting settlement	9,854	13,129
	$ 35,588	$ 36,713

Gold accounted for 100% of Agnico-Eagle's income from production as disclosed in the consolidated statements of income (loss). Byproduct revenues in 1998 consisted of 7% zinc (1997 and 1996 – nil), 70% copper (1997 and 1996 – 87%) and 23% silver (1997 and 1996 – 13%), respectively. Byproduct revenues are netted against costs of production on the consolidated statements of income (loss).

2. INVESTMENTS, LOANS, ADVANCES AND OTHER ASSETS

	1998	1997
Advances to Jakmin Investments Limited *[note 2(b)]*	$ 1,455	$ 705
Deferred foreign-exchange loss on U.S.-dollar senior convertible notes, less accumulated amortization of $4,898 (1997 – $2,393) *[note 4]*	16,917	8,711
Deferred financing costs, less accumulated amortization of $2,187 (1997 – $1,743) *[note 4]*	2,259	2,704
Other	160	62
	$ 20,791	$ 12,182

(a) In 1998, Agnico-Eagle acquired an additional 1.4% (1997 – 9.0%) of Sudbury Contact Mines, Limited ("Sudbury Contact"), a gold and diamond exploration company, for cash of $0.8 million (1997 – $8.4 million). These acquisitions have been accounted for by the purchase method. In 1998, the cost of the shares acquired exceeded the underlying book value of the assets by $0.8 million (1997 – $8.2 million), which amount was ascribed to mining properties. Effective February 11, 1999, Sudbury Contact merged with Silver Century Explorations Ltd., a gold and base metals exploration company and a partially owned subsidiary of Agnico-Eagle, to form a single gold exploration company. In conjunction with this merger, Agnico-Eagle converted its convertible debenture investment in Sudbury Contact to 1,065,637 Sudbury Contact common shares, which brought Agnico-Eagle's effective direct and indirect ownership interest in Sudbury Contact to 69.4% (December 31, 1997 – 65%). Agnico-Eagle's effective direct and indirect ownership interest in the merged company, under the name Sudbury Contact Mines Limited ("Sudbury"), is 69.8%. The costs relating to the merger in the amount of $0.3 million have been charged against the gain on sale of investments.

Subsequent to December 31, 1998, Agnico-Eagle completed a $0.8 million flow-through share private placement for 571,428 common shares of Sudbury, which resulted in Agnico-Eagle's effective direct and indirect ownership interest increasing to 70.8%.

In 1997, Agnico-Eagle wrote off the carrying value of its investments in other publicly traded companies of $0.7 million. In 1996, Agnico-Eagle realized proceeds of $1.3 million on the sale of 0.6% of the common shares of Sudbury Contact, which amount was recorded as a reduction of the net amount ascribed to mining properties described above.

(b) Jakmin Investments Limited ("Jakmin") is a company controlled by the estate of a former President of the Company, of which the Chairman of the Board of Directors and an officer of Agnico-Eagle are two of the three trustees. In 1998, Agnico-Eagle advanced to Jakmin $0.8 million, which was used to purchase shares of Mentor. The loan bears interest at 8% per annum and is repayable on demand. The loan, together with a non-interest bearing loan in the amount of $1.5 million, is secured by a pledge of shares of Mentor from Jakmin and a company associated with it. The pledged security had a market value of $0.8 million at December 31, 1998.

	1998			1997		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Mining properties	$ 62,955	$ 32,359	$ 30,596	$ 62,203	$ 28,673	$ 33,530
Plant and equipment	101,539	52,411	49,128	80,528	46,666	33,862
Construction in progress, at cost	51,827	–	51,827	36,582	–	36,582
Deferred expenditures, at cost	108,239	–	108,239	77,408	–	77,408
	$ 324,560	$ 84,770	$ 239,790	$ 256,721	$ 75,339	$ 181,382

The write-down of mining properties and other mining assets in 1997 consisted of the following:

Goldex Project	$ 51,870
Vezza Project	26,348
Sudbury Contact's Victoria Creek Project	42,601
Other mining properties	846
Mine store inventory	376
	122,041
Related income and mining tax recoveries	(16,342)
	$ 105,699

In addition, in 1997 the Company wrote down its gold bullion by $4.8 million and wrote off its investments in shares of other companies of $0.7 million. As a result, total write-downs in 1997 were $111.2 million, net of related income and mining tax recoveries of $16.3 million.

On January 27, 1994, Agnico-Eagle issued US$126.5 million aggregate stated amount at maturity of convertible notes due January 27, 2004 for net proceeds of US$101.9 million (C$133.7 million) after deducting underwriting commissions of US$3.2 million or C$4.1 million. Other costs of issuing the notes totalled C$1.2 million. The notes bear interest of 5.75% per annum on the issue price of US$830.68 per US$1,000. Current interest equal to 3.50% per annum on the stated amount at maturity or 4.21% on the issue price is payable in cash semi-annually. The balance of such interest will accrue as deferred interest in the

period during which the notes remain outstanding. The notes are convertible to common shares of Agnico-Eagle at the option of the holder, at any time on or prior to maturity, at a rate of 55.762 common shares per US$1,000 stated amount at maturity. The notes are redeemable by Agnico-Eagle, in whole or in part, at any time on or after January 27, 1998 for cash in U.S. dollars equal to the sum of the issue price plus accrued deferred interest and accrued and unpaid current interest.

The fair value of the conversion option associated with the senior convertible notes on the date of issuance was US$17.0 million or C$22.3 million and is reflected as "Other paid-in capital". Agnico-Eagle's obligation to the senior convertible note holders for future interest and principal payments is reflected as a long-term liability, carried at amortized cost. The fair value of Agnico-Eagle's obligation to make principal and interest payments at the time of issuance was US$88.1 million, including both cash and non-cash components of the interest expense, or C$115.5 million. The effective interest rate on the senior convertible notes for accounting purposes, including both cash and non-cash components of the interest expense, is 8.07% per annum.

For the year ended December 31, 1998, long-term interest expense was $12.6 million (1997 – $11.6 million; 1996 – $11.2 million) of which cash interest payments were $6.5 million in 1998 (1997 – $6.5 million; 1996 – $6.2 million).

Effective July 1, 1997, Agnico-Eagle's defined benefit pension plan for employees was converted to a defined contribution plan. In addition, Agnico-Eagle also provides a non-registered executive supplementary defined benefit plan for its senior officers. The funded status of Agnico-Eagle's defined benefit pension plan for employees is based on an actuarial valuation as of July 1, 1997 and projected to December 31, 1998. With respect to the supplementary defined benefit plan for executives, the valuation was as at July 1, 1998 and projected to December 31, 1998. The components of Agnico-Eagle's defined benefit expense (recovery) are as follows:

		1998		1997		1996
Service cost benefits earned in the year	$	**143**	$	94	$	64
Interest cost of projected benefit obligation		**284**		240		193
Return on assets		**(408)**		(405)		(352)
Amortization of net transition asset, past service liability and net experience gains		**145**		3		(97)
Net pension expense (recovery)	$	**164**	$	(68)	$	(192)

Effective January 1, 1997, Agnico-Eagle began contributing 5% (1996 – 4%) of its payroll expense to a defined contribution plan. The expense in 1998 was $1.1 million (1997 – $1.1 million; 1996 – $1.2 million).

Assets of the plan are comprised of pooled Canadian and U.S. equity funds and pooled bond funds. The funded status of the defined benefit pension plan for the employees' plan ("Employee") and the executive retirement plan ("Executive") for 1998 and 1997 were as follows:

	1998		1997	
	Employee	Executive	Employee	Executive
RECONCILIATION OF THE MARKET VALUE OF PLAN ASSETS				
Fair value of plan assets, beginning of year	$ 5,544	$ 22	$ 5,357	$ –
Agnico-Eagle's contribution	–	52	–	22
Actual return on plan assets	569	–	443	–
Benefit payments	(201)	–	(256)	–
Transfer to defined contribution plan	(362)	–	–	–
Fair value of plan assets, end of year	$ 5,550	$ 74	$ 5,544	$ 22
RECONCILIATION OF PROJECTED PENSION BENEFIT OBLIGATION				
Benefit obligation, beginning of year	$ 2,844	$ 2,027	$ 2,774	$ –
Service costs	–	143	33	61
Interest costs	206	78	205	35
Plan amendments	–	–	–	1,931 *[note 1]*
Actuarial losses	–	549	88	–
Benefit payments	(201)	–	(256)	–
Benefit obligation, end of year	$ 2,849	$ 2,797	$ 2,844	$ 2,027
Excess (deficit) of plan assets over benefit obligation	$ 2,701	$ (2,723)	$ 2,700	$ (2,005)
Comprised of:				
Unamortized transition gain (loss)	$ 109	$ (1,549)	$ 118	$ (1,803)
Unearned net experience gain (loss)	1,885	(549)	2,208	–
Prepaid expenses	987	–	675	–
Accrued liabilities	–	(625)	–	(202)
Past service liability	(280)	–	(301)	–
	$ 2,701	$ (2,723)	$ 2,700	$ (2,005)
Discount rate	7.5%	3.6% *[note 2]*	7.5%	3.6% *[note 2]*
Rate of return	7.5%	–	7.5%	–
Rate of salary increase	n.a.	3.0%	6.0%	3.0%
Estimated average remaining service life for the Employee plan (in years)	7	*[note 3]*	18	*[note 3]*

Notes:

[1] As of July 1, 1997, the establishment of the supplementary defined benefit plan for senior officers.

[2] Discount rates used for the Executive plan are after-tax rates.

[3] Estimated average remaining service life for the Executive plan was developed for individual senior officers.

6. CAPITAL STOCK

Summary of common share transactions:

	1998		1997		1996	
	Shares	Amount	Shares	Amount	Shares	Amount
Common shares issued, beginning of year	**45,663,981**	**$ 242,846**	40,098,721	$ 174,234	39,759,506	$ 170,669
Shares issued under stock options *[b]*	–	–	1,565,260	7,808	339,215	3,565
Shares issued under the purchase plan *[c]*	**146,318**	**1,013**	–	–	–	–
Shares issued by public offering *[d]*	**9,302,326**	**100,000**	4,000,000	60,804	–	–
Reduction of stated capital *[e]*		**(111,860)**		–		–
Common shares issued, end of year	**55,112,625**	**231,999**	45,663,981	242,846	40,098,721	174,234
Less the Company's own shares held by subsidiary companies *[a]*	**1,901,180**	**21,134**	1,811,189	26,917	1,272,389	18,735
Net shares	**53,211,445**	**$ 210,865**	43,852,792	$ 215,929	38,826,332	$ 155,499
Weighted average number of shares outstanding	**50,005,113**		42,917,545		38,741,015	

The Company's common shares are covered by a Shareholder Rights Plan whereby each shareholder, in the event of certain takeover bids or other change-in-control transactions involving the acquisition of 20% or more of Agnico-Eagle's outstanding voting shares, has the right ("Rights") to purchase from Agnico-Eagle for an exercise price of $80.00 that number of shares of Agnico-Eagle having an aggregate market price equal to twice the exercise price. Until such time as a triggering bid for control occurs, the Rights trade together with the existing common shares and will expire on May 10, 1999, unless extended by the Board of Directors.

The Company has reserved for issuance 7,053,893 common shares in the event that the senior convertible notes are converted into common shares.

(a) Changes in the Company's own shares held by subsidiary companies are as follows:

Transactions affecting own shares	Effect on Company's own shares *[i], [ii]* Shares	Amount
Balance, December 31, 1995	2,512,909	$ 30,416
Purchases of Company's shares by subsidiary companies	177,180	5,147
Sales of Company's shares by subsidiary companies	(1,417,700)	(16,828)
Balance, December 31, 1996	1,272,389	18,735
Purchases of Company's shares by subsidiary companies	538,800	8,182
Balance, December 31, 1997	1,811,189	26,917
Purchases of Company's shares by subsidiary companies	334,000	2,667
Sales of Company's shares by subsidiary companies	(244,009)	(8,450)
Balance, December 31, 1998	1,901,180	$ 21,134

[i] Share transactions are effected at quoted market prices on the transaction dates.
[ii] These shares are owned by partially owned subsidiary companies.

(b) Employee Stock Option Plan

Agnico-Eagle offers an Employee Stock Option Plan ("ESOP") that provides for the granting of options to directors, officers, employees and service providers to purchase common shares. Share options have exercise prices equal to market price at the grant date. The number of shares subject to option for any one person may not exceed 5% of the Company's common shares issued and outstanding at the date of grant. The number of common shares reserved for issuance under the ESOP is 6,000,000 common shares and options granted under the ESOP may have a term of up to ten years. The Compensation Committee of the Board of Directors is authorized to grant options exercisable in installments on such terms as to timing of vesting or otherwise as it deems advisable. In 1998, 983,500 options (1997 – 47,000; 1996 – 1,536,000) were granted under the ESOP, which expire in the year 2008 (1997 – 2007; 1996 – 2006). In 1998, 929,000 options granted (1997 and 1996 – nil) are exercisable on the date of grant. Of the remaining 54,500 options (1997 – 47,000; 1996 – 1,536,000), 20% are exercisable on the date of grant and the remaining 80% will be exercisable in equal installments, on each anniversary date of the grant, over a four-year term.

The following summary sets out the activity with respect to Agnico-Eagle's outstanding stock options:

	1998		1997		1996	
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	**2,824,650**	**$19.43**	4,862,940	$14.65	3,668,955	$11.56
Granted *[i]*	**983,500**	**8.27**	47,000	13.85	1,536,000	21.01
Exercised *[ii]*	**–**	**–**	(1,565,260)	4.99	(339,215)	10.52
Cancelled *[i]*	**(1,556,700)**	**20.65**	(520,030)	17.69	(2,800)	17.75
Outstanding, end of year	**2,251,450**	**$13.68**	2,824,650	$19.43	4,862,940	$14.65
Options exercisable at end of year	**2,145,250**		1,625,300		2,873,640	

[i] At the annual general and special meeting of the shareholders on June 12, 1998, the shareholders approved the cancellation of 1,450,000 of the Company's outstanding options at an exercise price of $21.00 per share. These options were due to expire on September 27, 2006. In replacement, the Company issued 615,000 stock options at an exercise price of $8.25 per share. The replacement options expire on March 6, 2008.

[ii] In 1997, the estate of a former President exercised options to acquire 1,479,000 common shares for cash consideration of $7.4 million.

The following table summarizes information about Agnico-Eagle's stock options outstanding at December 31, 1998:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at December 31, 1998	Weighted average remaining contractual life	Weighted average exercise price per share	Number exercisable at December 31, 1998	Weighted average exercise price per share
$8.10 – $9.30	969,500	9.6 years	$8.27	925,900	$8.25
$13.00 – $15.87	56,000	7.4 years	$13.14	27,800	$12.42
$16.13 – $18.75	1,189,950	6.8 years	$17.78	1,169,950	$17.77
$21.00 – $24.87	36,000	8.3 years	$24.37	21,600	$24.37
$8.10 – $24.87	2,251,450	8.0 years	$13.68	2,145,250	$13.60

The Company has reserved for issuance 2,251,450 common shares in the event that these options are exercised.

The number of unoptioned shares available for granting of options as at December 31, 1998, 1997 and 1996 was 1,996,380, 1,423,180 and 950,150, respectively.

(c) Incentive Share Purchase Plan

On June 26, 1997, the shareholders approved an Incentive Share Purchase Plan (the "Purchase Plan") to encourage directors, officers and employees ("Participants") to purchase Agnico-Eagle's common shares at market values.

Under the Purchase Plan, eligible employees may contribute up to 10% of their basic annual salaries or 100% of the board and committee retainer fees in the case of directors, and Agnico-Eagle will contribute an amount equal to 50% of the Participant's contribution.

In 1998, 146,318 common shares were issued under the Purchase Plan (1997 and 1996 – nil) for proceeds of $1.0 million. Agnico-Eagle has reserved for issuance 853,682 common shares (1997 – 1,000,000; 1996 – nil) under the Purchase Plan.

(d) Public offerings

In May 1998, Agnico-Eagle issued 9,302,326 common shares at $10.75 per share for net proceeds of $95.5 million, after deducting share issue costs of $4.5 million (related income taxes of nil).

In 1997, Agnico-Eagle issued 4,000,000 common shares at US$11.00 per share for net proceeds of $56.1 million, after deducting share issue costs of $2.9 million net of related income taxes of $1.8 million.

(e) Reduction of stated capital

At the annual general and special meeting of the shareholders on June 12, 1998, a special resolution was passed reducing the stated capital of the Company by $111.9 million, being the amount of the deficit in shareholders' equity as at December 31, 1997.

(a) Pending litigation

On February 11, 1986, Agnico-Eagle acquired the interest of Noranda Inc. ("Noranda") in Dumagami Mines Inc. ("Dumagami"). In November 1987, Noranda commenced a legal proceeding in the Supreme Court of Ontario against the Company, Dumagami and Mentor, as defendants. The plaintiff's claim arises from the sale by Noranda to the Company in February 1986 of 1,455,163 Dumagami shares. The claim of Noranda is for:

(i) a declaration that Noranda has a constructive trust over Dumagami shares held by Agnico-Eagle and Mentor;

(ii) alternatively, a declaration that Noranda has a constructive trust on the 1,455,163 Dumagami shares sold by it to Agnico-Eagle in February 1986;

(iii) against Agnico-Eagle and Mentor for an accounting of profits from Dumagami shares or alternatively, an accounting from Agnico-Eagle of profits on the 1,455,163 Dumagami shares;

(iv) alternatively, for rescission of the February 1986 sale agreement and return of the 1,455,163 Dumagami shares to Noranda; and

(v) against the three defendants for damages in the amount of $40.0 million for breach of fiduciary duty and against Agnico-Eagle and Dumagami for breach of contract, negligence and breach of custom and practice.

The plaintiff alleges, inter alia, that Agnico-Eagle and Dumagami failed to make full and timely disclosure to Noranda, prior to the above-noted sale, of the material results, their meaning and the current activity from the Phase I exploration program, as extended, at Dumagami's Bousquet-Cadillac property and did not carry out the exploration in accordance with reasonable or sensible geological practice.

In February 1988, the defendants delivered a Statement of Defense in the proceeding. In their Statement of Defense, the defendants expressly deny all claims of Noranda and assert that Noranda was kept informed on a timely basis of all exploration at Dumagami's property and that Noranda chose to rely on their conduct of the exploration without critical comment or on-site inspections. The defendants assert that Noranda was well aware at the time of the sale that the defendants proposed to continue the exploration program in an effort to increase the known tonnage and grade. The defendants state that Noranda was given all available engineering data and was requested by Agnico-Eagle to fund jointly the continuing program which Noranda elected not to do, electing instead to sell its Dumagami shares, because of its own historical lack of confidence in the property. The defendants assert that the exploration was carried out in keeping with sound mineral exploration practice in a progressive and cost-conscious manner and to Noranda's satisfaction without intervention by it at any time.

Agnico-Eagle believes that it has a good defense on the merits and has taken appropriate steps to defend the action vigorously. The parties have completed the discovery process and the trial, originally scheduled to commence on November 9, 1998, has been postponed indefinitely.

(b) Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year-2000 dates is processed. In addition, similar problems may arise in some systems which use numbers representing certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect Agnico-Eagle's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

FUTURE INCOME AND MINING TAXES

In fiscal 1998, Agnico-Eagle adopted the liability method of tax allocation for accounting of income and mining taxes. Prior years' consolidated financial statements have not been restated. The cumulative effect, as at January 1, 1998, of adopting these recommendations was not material. There was no material impact on the 1998 net loss.

Income and mining taxes expense (recovery) is made up of the following components:

	Liability method 1998	Deferral method 1997	1996
Current provision			
Federal income taxes	$ 850	$ 747	$ 248
Provincial mining duties	50	–	–
	900	747	248
Future provision			
Federal income taxes	(3,375)	(9,688)	(749)
Provincial income taxes	(2,250)	(6,458)	(499)
Provincial mining duties	(350)	(3,720)	1,200
	(5,975)	(19,866)	(48)
	$ (5,075)	$ (19,119)	$ 200

Cash income and mining taxes paid in 1998 were $1.4 million (1997 – $3.1 million; 1996 – $3.1 million).

Future income and mining taxes expense (recovery) has been provided on temporary and timing differences which consist of the following:

	Liability method 1998	Deferral method 1997	1996
Depreciation and amortization	$ 1,965	$ (3,317)	$ (3,576)
Exploration and development	(2,927)	(17,149)	5,187
Net operating loss	(3,682)	(1,973)	–
Other	(1,331)	2,573	(1,659)
	$ (5,975)	$ (19,866)	$ (48)

The income and mining taxes expense (recovery) is different from the amount that would have been computed by applying the Canadian statutory income tax rate as a result of the following:

	Liability method 1998	Deferral method 1997	1996
Combined federal and composite provincial tax rates	(38.6)%	(38.6)%	38.3%
Increase (decrease) in taxes resulting from:			
Federal surtax	–	–	41.0
Provincial mining duties	0.3	(2.6)	284.6
Resource allowances	–	(0.5)	(209.7)
Depletion	–	–	(97.3)
Processing, investment and treatment allowances net of disallowed expenses	–	–	(56.9)
Large Corporations Tax	5.1	0.5	161.3
Non-deductible expenses	1.6	26.7	66.0
Tax benefit previously unrecognized	–	–	(109.6)
Unrecognized benefit of non-capital losses	–	0.2	–
Rate differential	–	0.5	(35.9)
Miscellaneous	0.9	0.2	(43.0)
Actual rate as a percentage of pre-tax income (loss)	(30.7)%	(13.6)%	38.8%

Agnico-Eagle and its subsidiaries have non-capital income tax losses of approximately $28.3 million, which may be carried forward to reduce future years' taxable income. These losses expire as follows:

1999	$ 29
2000	283
2001	103
2002	636
2003	2,968
2004	13,191
2005	11,116
	$ 28,326

Agnico-Eagle and its subsidiaries have approximately $176.7 million of cumulative Canadian exploration and cumulative Canadian development expenses available indefinitely to reduce future years' taxable income.

As at December 31, 1998, Agnico-Eagle's future tax assets and liabilities were as follows:

	Assets	Liabilities
Non-current:		
Income taxes:		
Plant and equipment	$ 6,231	$ –
Deferred expenditures	27,954	–
Deferred foreign-exchange loss	1,416	–
Net operating and capital loss carry-forwards	16,906	–
Other	4,049	–
Valuation allowance	(50,330)	–
Total non-current	$ 6,226	$ –
Mining duties:		
Plant and equipment	$ 2,684	$ 5,573
Deferred expenditures	11,785	9,190
Other	221	103
Valuation allowance	(14,690)	–
Total non-current	$ –	$ 14,866
Non-current future income and mining tax assets and liabilities	$ 6,226	$ 14,866

At January 1, 1998, the valuation allowance, a reserve against future income tax assets recorded in the accounts, was $62.8 million. In 1998, the valuation allowance increased by a further $2.2 million primarily as a result of an increase in the tax bases of deferred expenditures of partially owned subsidiary companies for which the tax benefit is not reasonably assured.

[illegible]

(a) Included in general and administrative expense is $0.4 million (1997 and 1996 – $0.4 million) paid to Jakmin for office services provided throughout 1998.

(b) In 1998, Agnico-Eagle and its subsidiaries paid management fees of $1.0 million (1997 – $1.1 million; 1996 – $1.3 million) to W.A. Hubacheck Consultants Ltd. for exploration, project management and consulting services. W.A. Hubacheck Consultants Ltd. is a company controlled by Mr. W.A. Hubacheck, who is a member of the Board of Directors of Agnico-Eagle and was, until February 6, 1998, the President of Agnico-Eagle. The services provided included the ongoing management of Agnico-Eagle's exploration and development programs and the provision of all supervisory and field personnel employed on these programs. Agnico-Eagle believes that these management fees are as favourable to the Company as could be negotiated with an unaffiliated party. These fees are recorded at the exchange amount.

(c) In 1996, under the terms of a former President's employment contract with the Company, Agnico-Eagle was required to pay to his estate upon his death an amount of $1.0 million per annum for five years. On November 5, 1996, the Board of Directors agreed to settle the entire obligation by approving a one-time $5.0 million payment to his estate, less the amount of loans and advances of $1.7 million and accrued interest aggregating $1.0 million owed by him to Agnico-Eagle prior to his death.

(d) In 1998, the Company sold its entire ownership interest in Long Shots Inc., a consolidated associated company of Agnico-Eagle, to Jakmin for nil consideration which gave rise to a gain on the sale of investments of $0.2 million, which was credited to contributed surplus.

[illegible] AND REPORTING CURRENCY AND FINANCIAL INSTRUMENTS

(a) Change in functional and reporting currency

Agnico-Eagle's consolidated financial statements have been expressed in Canadian dollars up to December 31, 1998. As a result of increased business activities denominated in U.S. dollars, substantially all of the Company's revenue from mining operations being denominated in U.S. dollars and Agnico-Eagle's growing U.S. shareholder base, the U.S. dollar has been adopted as the unit of measure of Agnico-Eagle's operations effective January 1, 1999.

For the periods up to December 31, 1998, U.S.-dollar-denominated assets and liabilities of Agnico-Eagle's operations were translated into Canadian dollars at the exchange rates prevailing at the balance sheet dates for monetary items and at the exchange rates prevailing at the transaction dates for non-monetary items. U.S.-dollar-denominated income and expenses were translated into Canadian dollars at average exchange rates during the period. Exchange gains and losses were included in earnings, with the exception of unrealized gains and losses on the translation of U.S.-dollar-denominated debt, which were deferred and amortized over the remaining term of the obligation.

For the financial periods after December 31, 1998, Agnico-Eagle's Canadian-dollar operations are considered integrated and will be translated into U.S. dollars using the temporal method. Under this method of translation, assets and liabilities of Agnico-Eagle's Canadian-dollar operations will be translated into U.S. dollars at the exchange rates at the balance sheet date for monetary items and at the exchange rate prevailing at the date of the transaction for non-monetary items. Income and expenses denominated in Canadian dollars will be translated into U.S. dollars at average rates prevailing during the period with the exception of depreciation and amortization, which will be translated at historical exchange rates. Exchange gains and losses will be included in earnings, except for the deferred foreign exchange loss on Agnico-Eagle's senior convertible notes as at December 31, 1998 of US$11.0 million (C$16.9 million) (note 2), which will be amortized over the remaining term of the related obligation.

The Canadian-dollar consolidated financial statements and the notes thereto will be translated into U.S. dollars for all periods prior to January 1, 1999, in accordance with accounting principles generally accepted in Canada, using the closing spot Canadian and U.S. exchange rate of $1.5333.

Set out below is certain pro forma financial information for the years ending and as at December 31, 1998 and 1997 after giving effect to the change in functional and reporting currency.

(in thousands, except per share amounts)	**1998**	1997
Total assets	**US$280,753**	US$216,641
Shareholders' equity	**US$144,446**	US$ 88,594
Net loss for the year	**US$ 7,475**	US$ 79,302
Net loss per share	**US$ 0.15**	US$ 1.85

(b) Financial instruments

Agnico-Eagle has hedging facilities with a number of financial institutions to hedge for the potential exposure associated with foreign-exchange and metal prices. Until fiscal 1998, Agnico-Eagle used financial instruments, primarily foreign-exchange contracts and foreign-currency options, to hedge its exposure to the U.S./Canadian-dollar exchange rate because it receives the majority of its revenue in U.S. dollars. Effective January 1, 1999, Agnico-Eagle's unit of currency measurement changed from Canadian dollars to U.S. dollars. As a result, Agnico-Eagle's foreign-currency hedging programs changed from hedging the U.S./Canadian-dollar exchange rate risk on its U.S.-dollar revenue stream to hedging the Canadian-dollar expenditures used in operating, investing and financing activities.

As of December 31, 1998, Agnico-Eagle had entered into the following foreign currency contracts and forward exchange contracts to hedge its future Canadian-dollar requirements:

	1999	2000	2001	2002	2003
U.S.-dollar call options sold					
Amount (US$ thousands)	–	$ 24,000	$ 20,000	$ 20,000	$ 18,000
US$/C$ weighted average exchange rate	–	C$ 1.4911	C$ 1.4913	C$ 1.4891	C$ 1.5451
U.S.-dollar put options purchased					
Amount (US$ thousands)	–	$ 24,000	$ 20,000	$ 20,000	$ 18,000
US$/C$ weighted average exchange rate	–	C$ 1.4425	C$ 1.4428	C$ 1.4450	C$ 1.4522
U.S.-dollar fixed forward foreign-exchange contracts					
Amount (US$ thousands)	$ 33,000	–	–	–	–
US$/C$ weighted average exchange rate	C$ 1.4244	–	–	–	–

At December 31, 1998, the aggregate unrealized deficiency of the net market value of Agnico-Eagle's hedged foreign-currency position amounted to $2.6 million.

Agnico-Eagle's exposure to interest rate risk at December 31, 1998 relates to its short-term investments of $119.9 million (1997 – $92.4 million). The Company's short-term investments have a fixed weighted average interest rate of 4.9% (1997 – 4.5%) for a period of 24 days (1997 – 28 days). Interest charges on the amounts due to brokers are based on the prevailing market rate of interest.

Agnico-Eagle's concentration of credit risk consists primarily of cash and short-term investments, sales of zinc and copper concentrates to two smelters, foreign-currency forward contracts and foreign-currency options contracts. Agnico-Eagle places its cash and short-term investments in high-quality securities issued by government agencies, financial institutions and major corporations and limits the amount of credit exposure by diversifying its holdings. The realization of Agnico-Eagle's foreign-currency hedging program is dependent upon the ability of the counterparties to honour the terms of the contracts and upon the maintenance of a liquid market. To reduce counterparty credit exposure, Agnico-Eagle deals only with credit-worthy financial institutions and limits credit exposure to each party.

In addition, Agnico-Eagle has outstanding letters of credit amounting to $6.0 million (1997 – $4.3 million) for which fees vary up to 1% per annum. The Company has guarantees with a Canadian chartered bank to the extent of $1.2 million for the indebtedness of certain directors and officers of the Company incurred in the acquisition of shares of Agnico-Eagle in the open market.

The fair values of Agnico-Eagle's current financial assets and current financial liabilities approximate their carrying values as at December 31, 1998. The fair value of Agnico-Eagle's senior convertible notes, including holders' conversion option, at December 31, 1998 is $113.4 million (1997 – $108.4 million).

11. RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which differ in some respects from those in the United States. The following table presents amounts that would have been reported had Agnico-Eagle's consolidated financial statements been prepared on the basis of United States accounting principles:

	1998	1997	1996
Consolidated statements of income (loss):			
Net income (loss) for the year as shown in the consolidated financial statements	$ (11,462)	$ (121,594)	$ 316
Items having the effect of increasing (decreasing) reported income (loss)			
Interest expense *(a)*	4,949	3,820	2,131
Deferred foreign-exchange loss *(b)*	(9,218)	(5,648)	(358)
Related income and mining taxes *(a), (b)*	1,682	1,075	102
Net income (loss) under accounting principles generally accepted in the United States *(d), (i), (k), (l)*	$ (14,049)	$ (122,347)	$ 2,191
Basic earnings (loss) per share *(i)*	$ (0.28)	$ (2.85)	$ 0.06
Fully diluted earnings (loss) per share *(c), (i)*	$ (0.28)	$ (2.85)	$ 0.05
Consolidated balance sheets:			
Supplies *(e)*	$ 4,736	$ 4,995	$ 5,435
Investments, loans, advances and other assets *(a), (b), (j)*	$ 4,176	$ 3,948	$ 5,212
Future income tax asset *(a), (b), (d), (f)*	$ 9,902	$ –	$ –
Mining properties *(a)*	$ 243,940	$ 182,990	$ 277,584
Accrued liabilities *(e)*	$ 1,227	$ 5,827	$ 5,351
Wages payable *(e)*	$ 1,784	$ 1,657	$ 3,987
Amounts due to brokers *(e)*	$ –	$ 6,580	$ 2,112
Senior convertible notes *(a)*	$ 175,233	$ 160,453	$ 151,228
Future income and mining tax liabilities *(a), (b), (d), (f)*	$ 14,866	$ 9,549	$ 57,011
Common shares *(f), (g)*	$ 434,959	$ 338,457	$ 272,747
Other paid-in capital *(a)*	$ –	$ –	$ –
Contributed surplus *(h)*	$ 7,190	$ 10,714	$ 10,714
Deficit *(a), (b), (f), (g), (h), (i)*	$ (222,106)	$ (206,395)	$ (82,792)
Total shareholders' equity *(a), (b), (i), (j)*	$ 198,819	$ 115,859	$ 181,934
Total assets *(a), (b), (d), (j)*	$ 421,689	$ 325,550	$ 430,662
Consolidated statements of cash flows:			
Cash flows from (used in) operating activities	$ 7,647	$ 12,242	$ (3,315)
Cash flows used in investing activities	$ (71,247)	$ (62,891)	$ (56,473)

(a) In 1996, under Canadian accounting principles, Agnico-Eagle retroactively presented the separate equity and liability components of the senior convertible notes. This accounting policy is not permitted under United States accounting principles. Accordingly, additional interest expense determined under Canadian accounting principles, which has been deducted to arrive at net income (loss) and proceeds allocated to holders' conversion option, would be classified as a non-current liability rather than equity under United States accounting principles.

In addition, $0.9 million of financing costs associated with the equity component of the senior convertible notes, which has been charged against retained earnings under Canadian accounting principles, would be classified as deferred financing costs under United States accounting principles.

Under United States accounting principles, for the year ended December 31, 1998, interest expense of $2.5 million (1997 – $1.6 million; 1996 – nil), less related future income tax expense of $1.0 million (1997 – $0.6 million; 1996 – nil), would have been capitalized as part of construction in progress in mining properties.

(b) United States accounting principles require that the deferred foreign-exchange loss, net of income tax recovery of $2.7 million in 1998 (1997 – $1.7 million; 1996 – $0.1 million), be included in the determination of income.

(c) Fully diluted earnings (loss) per share under United States accounting principles for 1998, 1997 and 1996 has been calculated using the weighted average number of shares and share equivalents outstanding under the treasury stock method of 50,005,113, 42,917,545 and 40,353,665, respectively.

(d) In 1998, Agnico-Eagle adopted the liability method of income tax allocation for the accounting of income and mining taxes under Canadian accounting principles. Future income and mining tax assets and liabilities under United States accounting principles are identical to those in Canada except for items described in notes 11(a) and 11(b) above.

As at December 31, 1997, Agnico-Eagle's future tax assets and liabilities under the requirements of FASB Statement No. 109 were as follows:

	Assets	Liabilities
Non-current:		
Income taxes:		
Plant and equipment	$ 3,589	$ 2,626
Deferred expenditures	37,695	393
Foreign-exchange loss	1,620	(992)
Net operating and capital loss carry-forwards	9,718	–
Other	403	(244)
Valuation allowance	(48,648)	–
Total non-current	$ 4,377	$ 1,783
Mining duties:		
Plant and equipment	$ 2,670	$ 5,177
Deferred expenditures	11,500	6,036
Other	–	930
Valuation allowance	(14,170)	–
Total non-current	$ –	$ 12,143
Net non-current future income and mining taxes liability		$ 9,549

At January 1, 1997, the valuation allowance was $22.1 million. In 1997, the valuation allowance increased by $40.7 million primarily as a result of the effect of the write-down of mining assets of $122.0 million for which a tax benefit was not fully recognized.

Prior to the write-down of mining properties during 1997, mining properties and future income taxes – non-current both increased cumulatively by $28.0 million as a result of the application of FASB Statement No. 109 to Agnico-Eagle's acquisitions of subsidiary companies. At December 31, 1997, as a result of the write-down of mining properties as described in note 3, both mining properties and future income taxes – non-current decreased by an additional $28.0 million under United States accounting principles.

(e) The United States Securities and Exchange Commission ("SEC") requires disclosure of amounts in excess of 5% of either total current assets or total current liabilities.

(f) United States accounting principles require that share issue costs of $15.9 million (1997 – $11.3 million; 1996 – $8.4 million), net of related income taxes, be recorded as a reduction of proceeds of issue instead of a charge to the retained earnings (deficit) account as has been done under Canadian accounting principles.

(g) Generally accepted accounting principles in Canada allow for the reduction of the stated capital of outstanding common shares with a corresponding offset to deficit. This reclassification, which the Company made in 1998 and prior to 1995, is not permitted by United States accounting principles and would result in an increase in both capital stock and deficit of $218.7 million (1997 and 1996 – $106.9 million).

(h) Agnico-Eagle's interest in an associated company has been accounted for on the cost basis prior to 1982. Subsequent thereto, the consolidation or equity method has been applied, as appropriate. United States accounting principles require that the consolidation or equity method be applied retroactively to the date of acquisition. This difference affected contributed surplus to the extent that the subsidiary company recorded gains and losses on sales of Agnico-Eagle shares prior to 1982 and affected retained earnings to the extent of Agnico-Eagle's share of gains (losses) of the subsidiary company prior to 1982. As a result, deficit and contributed surplus would be increased by $1.2 million under United States accounting principles.

(i) The Company, for purposes of preparing financial information in accordance with United States accounting principles, continues to account for its stock-based compensation plan under Accounting Principles Board Opinion 25 "Accounting for Stock Issued to Employees" which results in the recording of no compensation expense in Agnico-Eagle's circumstances. On a pro forma basis under FASB Statement No. 123, 1998 net loss and loss per share would have been $17.3 million (1997 – $(124.5 million); 1996 – $(1.1 million)) and $0.35 per share (1997 – $(2.90) per share; 1996 – $(0.03) per share), respectively, after giving effect to the grants subsequent to 1994. The weighted average grant date fair value of options granted during 1998 amounted to $2.98 per share (1997 – $3.91 per share; 1996 – $5.86 per share). The estimated fair value of the options is amortized to expense over the options' vesting period.

Agnico-Eagle estimated the fair value of options under the Black-Scholes option-pricing model and the following weighted average assumptions:

	1998	1997	1996
Risk-free interest rate	**4.9%**	6.0%	5.5%
Expected life of options (in years)	**3.0**	4.2	4.3
Expected volatility of Agnico-Eagle's share price	**51.5%**	28.5%	25.7%
Expected dividend yield	**0.49%**	0.84%	0.63%

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. As the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions, such as expected stock market price volatility, can materially affect the fair value estimate, in management's opinion, the existing pricing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

(j) The United States SEC requires that the $5.0 million payment referred to in note 9(c) be recorded as compensation expense, which reduces 1996 operating income to $6.7 million.

In 1998, advances to officers and directors under the Employee Stock Incentive Plan of $90,000 (1997 – nil) have been included in "Investments, loans, advances and other assets" in the consolidated balance sheets. The SEC requires that such accounts receivable be presented as deductions from shareholders' equity.

(k) The United States FASB has issued new standards on the accounting of derivative financial instruments and hedging activities under Statement No. 133, which are effective for fiscal years beginning on or after June 15, 1999. Statement No. 133 establishes accounting and reporting standards requiring that all derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or a liability measured at its fair value. In addition, Statement No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Agnico-Eagle has not yet determined the effect of adopting this new standard.

(l) Effective January 1, 1999, Agnico-Eagle adopted the U.S. dollar as the principal currency of measurement. Prior to this change, the Canadian dollar had been used as the reporting currency. Under Canadian accounting principles, Agnico-Eagle's consolidated financial statements for all periods up to December 31, 1998 will be translated into U.S. dollars using the closing spot Canadian and U.S. exchange rate of $1.5333. Under United States accounting principles, prior periods' consolidated financial statements must be translated to U.S. dollars by the current rate method using the year-end or the annual average exchange rate where appropriate.

DIRECTORS AND OFFICERS

DIRECTORS

Charles E. Langston
Chairman,
Agnico-Eagle Mines Limited

Sean Boyd
President and Chief Executive Officer,
Agnico-Eagle Mines Limited

John T. Clement, Q.C.
Vice-President,
Agnico-Eagle Mines Limited

Douglas R. Beaumont
Professional Engineer

Irving Dobbs
Vice-President,
Sound Insurance Services Inc.

Dr. Alan Green
Dentist

Wencel Hubacheck
Professional Engineer

Milton Klyman
Financial Consultant

Bernard Kraft
Chartered Accountant

James D. Nasso
President,
Unilac Limited

Dr. George Pon
Professional Engineer

Ernest Sheriff
Prospector

OFFICERS

Charles E. Langston
Chairman

Sean Boyd
President and Chief Executive Officer

Ebe Scherkus
Executive Vice-President and Chief Operating Officer

Barry Landen
Vice-President and Corporate Secretary

Anton Adamcik
Vice-President, Exploration and Environment

John T. Clement, Q.C.
Vice-President

David Garofalo
Vice-President, Finance

OPERATING PERSONNEL

HEAD OFFICE PERSONNEL

Ben Au
Controller

Alain Blackburn
Manager, Corporate Development

CONSULTANTS

W.A. Hubacheck Consultants Limited

MINING PERSONNEL

LaRonde Division

Paul Henri Girard
Mine Manager

Philippe Authier
Mechanical Superintendent

Jean Bastien
Chief Engineer

Marcel Bordeleau
Chief Accountant

Roger Lacerte
Mine Superintendent

Marc Legault
Chief Geologist

Claude Leveillée
Human Resources

Jean Robitaille
Mill Superintendent

Felix St. Amant
Chief Electrician

Silver Division

John Young
Manager

CORPORATE INFORMATION

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P.O. Box 102
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Fax: 416.367.4681

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Cadillac, Quebec J0Y 1C0
Tel: 819.759.3644
Fax: 819.759.3641

Exploration Division
765 Chemin de la Mine Goldex
C.P. 87
Val d'Or, Quebec J9P 4N9
Tel: 819.874.5980
Fax: 819.874.3318

AUDITORS
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Toronto-Dominion Centre
Toronto, Ontario M5K 1J7

SOLICITORS
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1 First Canadian Place
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P.O. Box 63
Toronto, Ontario M5X 1B1

McGuire Woods Battle & Boothe, LLP
1050 Connecticut Avenue, NW
Washington, D.C. 20036-5317

FORM 20-F
A copy of the Company's Annual Report on Form 20-F filed with the Securities and Exchange Commission is available upon written request, at no charge, from the Corporate Secretary at the Company's executive and registered office.

Pour obtenir un exemplaire de la version française de ce rapport, veuillez écrire au Chef des finances,
Mines Agnico-Eagle Limitée
Bureau 2302
401 Bay Street
Toronto (Ontario) M5H 2Y4

REGISTRAR AND STOCK TRANSFER AGENT
Questions on stock transfer, change of address, lost certificates and dividends should be sent to:

Montreal Trust Company of Canada
151 Front Street West
8th Floor
Toronto, Ontario M5J 2N1
Tel: 1.800.663.9097
E-mail: inquire@montrealtrust.com

Place Montreal Trust
1800 McGill College Avenue
Montreal, Quebec H3A 3K9
Tel: 514.982.7000

CO-REGISTRAR AND CO-TRANSFER AGENT NEW YORK
Bank of Nova Scotia
Trust Company of New York
One Liberty Plaza
New York, N.Y. 10006
Tel: 212.225.5470

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange
Montreal Exchange
Trading Symbol AGE

New York Stock Exchange
Trading Symbol AEM

NASDAQ
Symbol AEGGF
Convertible Notes due 2004

ANNUAL MEETING OF SHAREHOLDERS
June 25, 1999, 10:30 a.m.
Toronto I Room
Toronto Hilton Hotel
145 Richmond Street West
Toronto, Ontario, Canada

CONTACT INFORMATION

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AGNICO-EAGLE
MINES LIMITED